APPRAISING TODAY'S MARKET OUTLOOK

The MAGAZINE of WALL STREET and BUSINESS ANALYST

SEPTEMBER 15, 1945

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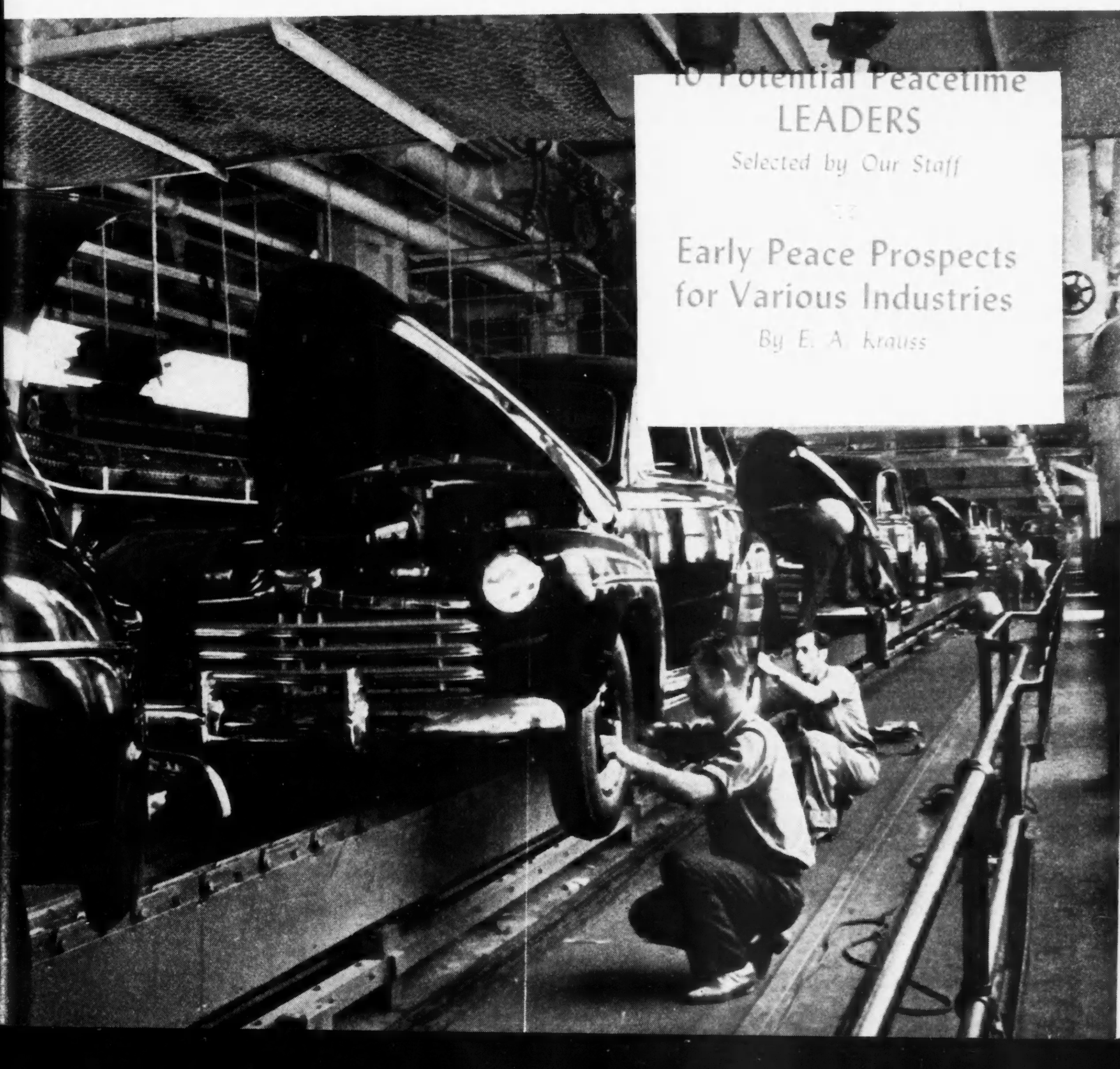

10 Potential Peacetime LEADERS

Selected by Our Staff

Early Peace Prospects for Various Industries

By E. A. Krauss

Sturdy furniture made of paper will make more jobs.

Soft paper sheets for hospitals will take workers to produce.

Whole meals frozen and shipped in paper. More jobs here.

Long-lasting rugs, woven on paper. Still more jobs!

Postwar Jobs—Wrapped Up in Paper!

WITH VICTORY, servicemen and war workers alike are going to need jobs. How many there will be, no one can say. But this much is known:

Business management is already laying plans to meet as quickly as possible the demand for goods that will exist when the war ends—and doing this will make jobs by the thousands.

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A Report on the Prospects for Postwar Employment In The Industries Served by

Chesapeake & Ohio Lines

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CHESAPEAKE AND OHIO RAILWAY
NICKEL PLATE ROAD
PERE MARQUETTE RAILWAY

If you have a war job, stay on it—there'll be lots of opportunities after Victory!

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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Cover: New Fords On Assembly Line — *Press Assoc. Photo*

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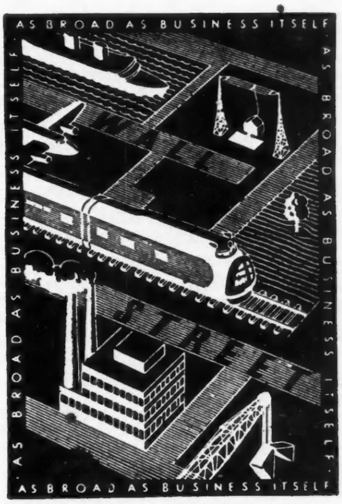
SECURITIES DISCUSSED IN THIS ISSUE

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* E. A. Krauss, *Managing Editor*



The Trend of Events

THE PRESIDENT'S MESSAGE . . . The presidential message embodying the first official blueprint of the peace-time program of the Administration contains relatively few surprises. Its general tenor was in line with his known attitude and the specific proposals made have for the most part been already in the hands of Congress. What stands out is that his chief aim evidently was to show that the pending legislative program, designed to cushion the shock of transition, is consistent with the objective of restoring a healthy private enterprise system. In this he may not have fully succeeded.

On the one hand, he pledged creation of a Washington climate conducive to business confidence. In fact he says that "to provide jobs, we must look first and foremost to private enterprise; Government must inspire enterprise with confidence." On the other hand, he stands committed, apparently, to a program of social and political reforms difficult to reconcile with this pledge. This applies particularly to his support of the Full Employment bill with its mandate to step up Government spending whenever necessary to assure jobs to all.

Thus while on the whole, the objectives of the Administration are sound and commendable, it would seem that purposes and practical measures will have to be brought more in line with each other if the program is to succeed fully. Obviously Congress has definite views of its own and may balk at some of the more extreme proposals, particularly those which involve potential large-scale expenditure of tax payers' money. That part of the program almost certainly will have to be watered down considerably before enactment becomes feasible.

If the presidential message has a strong tinge of economic planning, it must be realized, however, that after the extraordinary war effort we have made, there is no such thing as going back to peace-time procedures overnight. In the interest of economic and social stability, no responsible Government could consider such a course, desirable as it may seem to many. The readjustment will have to be gradual and under proper guidance, and we will have to trust to common sense in the Administration and in Congress for lifting irksome or harmful controls at the earliest possible moment.

In our present situation, we cannot very well sit by idly and let nature take its course; that would be a wholly negative approach, full of economic and political dangers. Hence it is readily understandable that the President felt obliged to outline certain preventive measures and let Congress share the responsibility of accepting or rejecting the recommendations made. That he will accept the congressional verdict is clearly implied in the tenor of the message.

In the circumstances, therefore, it may be prema-

ture to bewail his proposals for economic planning, for subsidies and pump priming as clear-cut evidence of definite embracement of the New Deal policy of deficit spending as an over-all cure of unemployment. Only time will tell whether this is so, or whether the President's recommendations are merely precautionary, to be applied wisely and with moderation in the event that transitional convulsions prove acutely unsettling. Despite the excellent start toward reconversion, it must be remembered that the acid test lies still ahead, that the climax in an economic sense may not come for many months. It doesn't mean that we can afford to be less prepared.

The President's message has been outstanding for its conciliatory tone, for the spirit of genuine friendliness towards Congress, industry and labor. To business quarters especially, the Chief Executive's strong advocacy of policies designed to win business confidence had a new and welcome ring, as had the specific assurances promised to promote such confidence. It will be needed if we are to build the prosperous peace-time economy the President so confidently envisages. No one realizes this more than Mr. Truman. His message, in its essence, acknowledges that transition cannot be accomplished without the teamwork of all forces, including the guiding hand of the Government.

PEACE AND THE BUDGET... Anyone who thinks that the war's end will see a prompt and sizable reduction of Government outlays is doomed to disappointment. Some reduction there will be, but not enough to avoid another deficit in the current fiscal year. During the latter, Government spending was originally set at some $85 billion. The revised estimate, following VJ-Day, is some $66 billion. Since revenues will only come to around $36 billion, there will be a deficit of $30 billion. Thus despite the end of the war, only 55% of the year's projected expenditures will be covered by taxes. This is one reason why tax cuts must remain relatively limited, for the budget outlook can hardly be viewed as an invitation to indiscriminate tax rate slashing.

There is another side to this. Despite the end of the war, the national economy will continue to be stimulated for some time by an abnormal volume of Government spending. Not for another 1½ to 2 years will the Treasury be able to reduce expenditures to anything like the postwar normal level of some $25 billion. And with the Government paying out some $66 billion during the current fiscal year, it is clear that deflation of the national income will be gradual rather than abrupt. It is a distinct stabilizing factor during transition but we must pay for it in taxes, now and later. The amount of purchasing power thereby injected into the income stream is of course not nearly sufficient to reverse the downward trend of business initiated by war contract cancellations; it can only slow it up and no reversal will occur until revival of peace-time business is well under way. Once this is so, however, Federal spending at the rate projected in the revised budget could greatly speed the upturn; it could ultimately push industrial production to a higher level than otherwise would have been possible. Deficit spending in this instance, inevitable as it is, has constructive connotations, shortening and limiting the transitional dip in overall business. But it also postpones the day when we shall once again have a balanced budget.

WAR AND INDUSTRY... Our industry's fantastic wartime growth is aptly summarized in a recent survey of the War Production Board. Here are some of the highlights: Industrial capacity more than doubled during the period in which we prepared for and conducted the war. Corporate profits, despite stiff wartime taxes, ballooned 120% after taxes, and no less than 350% before taxes, in both instances far exceeding 1929 levels. Investment in new plants and equipment amounted to $25 billion. Raw materials production soared 60%, our labor pool increased 20%. Net working capital of industry doubled, and the net value of all industry increased about one-third. Volume of output during the war years rose at an annual rate of 15% compared with a normal peace-time rate of about 4%. Virtually every industry expanded, though in varying degree. Sole exceptions were printing and publishing (due to the paper shortage), wearing apparel and the shoe industry.

Realistically, however, the WPB warns that the prodigious growth of industrial capacity must not be regarded as evidence of a new production trend or a basis for future steady growth and development, adding that the unprecedented wartime expansion may be no more than a short-lived demonstration of the flexibility and power of American industry when put to a supreme test.

It is well to let that sink in, to realize that we are in for a considerable amount of industrial deflation. Industry's wartime basis can no more be made a point of departure for peace-time production goals than wartime employment can be made a genuine and workable criterion for permanent peace-time employment, the full employment ideal to the contrary notwithstanding.

LONG ROAD TO FREE COMMODITY MARKETS... Some of the difficulties encountered in transition from wartime commodity control to free marketing are impressively illustrated by the British Wool Agreement recently concluded. The British Government today holds some 3.3 billion pounds of wool grown in the Dominions during the war and unsold to date. Obviously, throwing this huge stock or any large part of it on the market would break the price and make it impossible for Australia, New Zealand and South Africa to sell, for a considerable time ahead, any new production on a profitable basis. Some arrangement for withholding the stock, and its gradual liquidation as consumption warrants, was inevitable .

The effect of this arrangement will be to stabilize prices of raw wool around the minimums fixed by Britain and the Dominions for years to come, with corresponding repercussions on wool markets elsewhere including in the U. S.

As I See It!

BY ROBERT GUISE

THE FAR EASTERN PUZZLE

WITH victory over Japan secured and the Stars and Stripes flying over Tokio, we are now faced with the task of consolidating the Far Eastern situation. It is a tangled situation, posing many knotty problems, for Japan's downfall and the resultant breaking up and redivision of her ill-gotten empire will mean a complete shift of power in the Pacific. And many sparks are still threateningly smoldering under the surface; it would be unrealistic to suppose that the war's end has ushered in a period of immediate peace and good will.

By virtue of our enormous power, both military and economic, American influence today is such that we can call the tune in Pacific affairs. It should enable us to use the new relationships arising from Japan's defeat for building a basis for peaceful development of that part of the world, development in line with American policies and American ideals. Still, the difficulties ahead are great and nothing should be allowed to obscure the precariousness of the peace which the United Nations have won. To make the period that faces us from one of mere absence of war to one of genuine peace will require all the intelligence, ingenuity and honesty of purpose that allied diplomacy can muster.

The immediate task is, and has been for some time, to see to it that redivision of Japan's empire follows a pattern conducive to peace and stability, to preserve a political balance that will stand the strain of future tests. It will be neither a purely military nor purely diplomatic matter, in the long run, though in the immediate future the weight of diplomacy, backed by power, will be the overriding factor.

Apart from certain military and naval bases, we have no territorial aspirations in the Far East. Our chief aim is settlement of Pacific territorial and political problems as they affect our Allies, so as to permit peaceful development of the entire Eastern Asiatic area. There are many angles to it.

The recently announced Sino-Soviet Pact, clarifying the status of these two key countries in Northern China, should prove a helpful instrument. While it has greatly strengthened the Soviet position in Northern Asia, it has also established a basis for Allied cooperation. In effect, since the pact was concluded with active American support, it constitutes in a sense a Soviet-American compromise, recognizing both Russia's security needs and American concern for China's territorial integrity and preservation of Chungking as China's leading political force. Such at least is the hope, though it is one far from shared everywhere. Some are inclined to liken the pact to that which the Soviets concluded with the Polish General Sikorski, fearing that Yenan may yet prove an Asiatic Lublin. They are apprehensive lest Russia, in characteristic fashion, may have taken one step backward merely to take two steps forward later, on more opportune occasion.

THE ECLIPSE.

New York Times

However, such pessimism may not be justified though it is widely realized that Chungking — faced with deadly civil war—had little choice. Rather, American power today is such that there is every reason to hope that despite the proximity and possibilities of differences between us and Soviet Russia, a measure of cooperation and friendly compromise can be assured, that we can avoid a situation where ultimately a victorious China may be split in two or more parts, with the great powers ranged on opposite sides. The danger of such a contingency, it would seem, is definitely past. Perhaps our possession of the atomic bomb has no little to do with it. At any rate, the issues at stake no longer appear insoluble by peaceful methods though the facts of the situation still hold many unpromising aspects. China still is in the throes of a deep crisis but the clouds are gradually lifting.

The outcome of the current talks between Generalissimo Chiang Kai-shek and Mao Tse-tung, delegate from communist China, will be a clue to the real meaning of the Sino-Soviet pact; on the outcome will also hang the (*Please turn to page 676*)

Appraising Today's Market Outlook

Though the broader averages have made new highs by a moderate margin, most of the rise from the August reaction low was recovery; and continued advance at anything like the pre-Labor Day pace is questionable. In making new commitments, cautious discrimination continues essential.

BY A. T. MILLER

OVER the past fortnight our composite weekly index of 290 stocks has moved up to a new bull market high by a moderate margin, topping the previous intermediate high of June by about 3.5%. The indexes of 100 high-price stocks and 100 low-price stocks also went into new high ground. However, the latter has followed, rather than led, in the most recent market phase; and that raises at least something of a question mark, which will require further discussion, and some watching, hereafter.

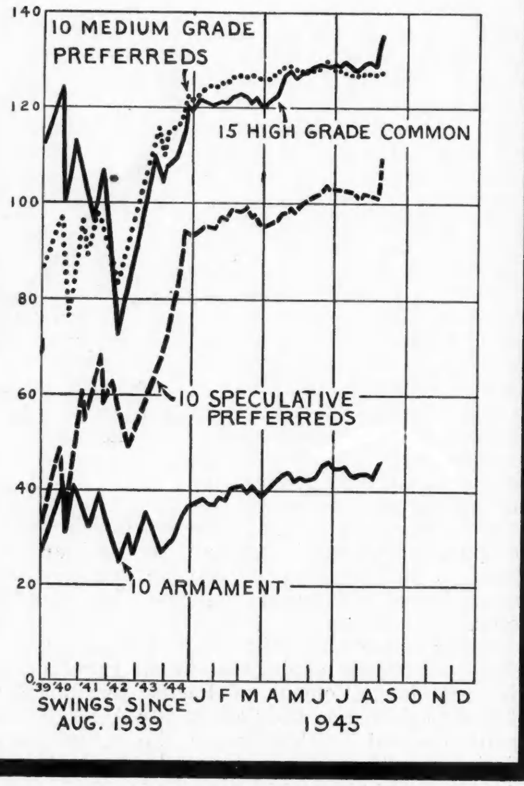
The daily Dow-Jones averages tell pretty much the same story, with the industrials and utilities at new bull market highs, but with the rails lagging, along with various other "war flavor" groups. Though the over-all performance is generally on the encouraging side, recurrent periods of hesitation suggest that the prevailing optimism is not without an alloy of caution. And it is still a selective market. Less than half of the individual stock groups for which we keep weekly indexes made new highs last week; only a slightly higher percentage made new highs the week before. While rails, aircrafts, shipbuilding stocks and oils are the most conspicuous laggards so far, quite a few others are but moderately less lethargic.

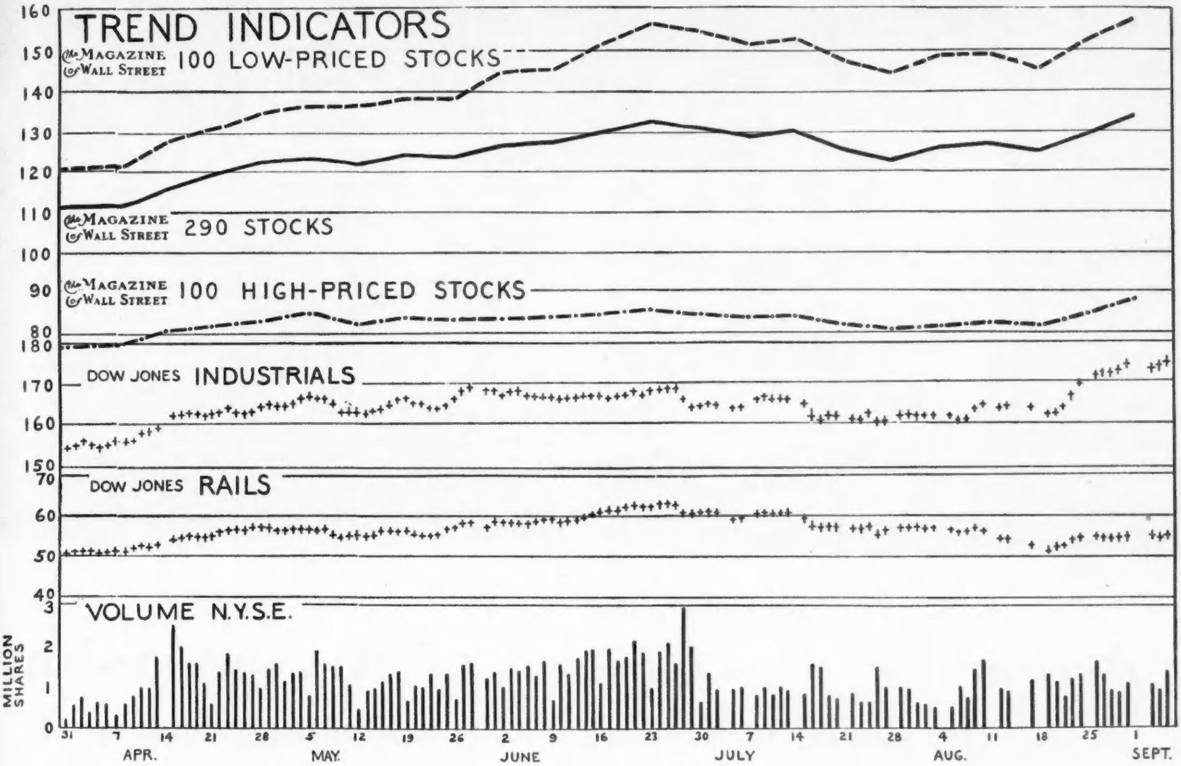
The sharpest part of the rise from the August intermediate-reaction low took place over the seven trading sessions immediately preceding the Labor Day holiday. Late summer strength, traditionally reflecting hopes of good autumn business, has been an old market habit in many more years than not. That necessarily makes the percentage less favorable for the autumn months. The market's erratic seasonal record of September-October has a basis that is more than happenstance. To maintain an advance, business must be better than had been anticipated in the summer rise—or hopes for the longer term" must be discounted more and more extravagantly. Since autumn business in any year can be only one of three things—about what the market had anticipated, worse than it had expected, or better than it had hoped—there are, at least in terms of economics, two chances out of three for post-Labor Day irregularity or reaction.

The first two sessions after Labor Day brought a pause and small recession in the averages, followed by a further brisk rise as soon as the summary of President Truman's message to Congress was carried on the news tickers. It is hard to say whether the bulls were encouraged more by Mr. Truman's promise of "limited tax relief" for 1946 or by the inflationary implications in the over-all cost of his proposals. In the two concluding sessions of last week, traders and investors either were less sure of the "bullishness' of the message or more inclined to stop, look and listen for a bit. As a matter of fact, practically all of last week's gain in the averages, though not in a number of individual stocks, occurred in three hours on the day of the Truman message.

Thus analyzed, it could be said that excepting for a relatively brief period within one day of the past week the market so far has not done a great deal in September. We are not inclined to jump to any pessimistic conclusions on that account—but neither can it be taken for granted on the basis of the limited technical evidence since Labor Day that the market has the vitality to maintain a broad advance.

There are two essentially technical considerations which suggest to us that a continuing selective, "middle-of-the-road" investment policy is the part of both wisdom and prudence. One is that the an-





nual range of the Dow industrial average so far for 1945 has exceeded that of the three prior bull market years, with the exception of 1943, and has about equalled the latter. True, one can not set an arbitrary limit on the range of a given year. Nevertheless, there is a law of action and reaction—rhythm, if you prefer—in the stock market. That is why the sum total of advances and reactions over more than 25 months since the July, 1943, high foots up to a net gain today of no more than 21% in the Dow industrials or an average of well under 1% a month. From the August low, this average is now up about 16 points. Such a concentrated move decreases, rather than increases, the chances that anything like that pace can be maintained. In short, there is risk in assuming that the market has a one-way bullish road for the rest of the year.

We noted earlier in this discussion that the low-price stock index has so far "followed along" on this move, rather than paced it. That brings up a different kind of technical question. Despite all the talk about the "pressure of idle funds seeking investment"—with emphasis on that conservative-sounding word investment—the fact is that, except in its first phase, it takes speculation to keep a bull market going. Some observers take it as a good "sign" that Blue-Chip stocks recently have been leading the market. We are not so sure. There are limits to which sophisticated money will go in reaching even for good-grade stocks, and in the daily operations of the general public the high-price stocks do not figure largely.

With the exception of the initial rise in 1942, every previous important phase in this bull barket has been led by speculative stocks, as perfectly reflected in the course of our low-price stock index. Of course, this may "take over," but it remains to be seen—especially with margin accounts still frozen. Unless broad speculative demand develops the renewed rise might amount to another limited step up, possibly the bulk of it already seen, rather than a sustained affair.

Turning to more fundamental considerations, the bright side of reconversion has been emphasized—perhaps over-emphasized—in the press for the past several weeks. Yet the fact remains that production is declining sharply, unemployment is increasing and within the past week retail trade has begun to dwindle—quite sharply in some cities. Though corporate earnings, in most cases, will be satisfactory for the year, a great many interim reports between now and spring will make not so good reading. On these counts it could be reasoned that the market may not yet be entirely "out of the woods."

Though some in Congress have held out the promise of repeal of the excess profits tax for 1946, neither the President nor the Secretary of the Treasury have made any specific commitment publicly. The concensus is that it will be repeal, but since actual consideration by the House Ways and Means Committee is only a few weeks ahead it would not be surprising if the market decided to wait and see what eventuates. Finally, "fast" reconversion is now increasingly threatened by labor troubles, with some fear that strikes may snowball, especially in the key automotive field.

To sum up, the maintenance of substantially invested positions in carefully chosen stocks appears warranted. We would not relax discriminating caution in adding to commitments.—Monday, Sept. 10.

President Truman Meets with Reconversion Advisory Board. *Press Association*

Projecting the Course of Reconversion

— WITH OVERALL IMPLICATIONS OF THE GOVERNMENT PROGRAM

BY WARD GATES

V-J Day has come and gone, and though transition is still in its earliest stage, its pattern has already come into sharp focus. On the whole it is an encouraging pattern, permitting greater optimism than business dared harbor only a few months back.

This optimism, and the speedy tempo of reconversion we are now witnessing, is largely the outgrowth of Government moves and Government policies aimed at quick and smooth transition. Washington has taken unexpectedly firm and prompt action and what's more, business is really given its head. Government is actively sponsoring an "away with controls" psychology with the idea that a strong upsurge of business confidence may spur enough activity to take up quickly much of the slack resulting from the flood of war contract cancellations. It was sound reasoning and consequently, this sort of approach so far has been eminently successful.

While uncertainties and confusions no doubt exist, and will continue to plague the reconversion process, excellent progress has been made. Industry is tackling transitional problems with utmost energy and vision, aware that the official policies pursued imply that a high degree of reliance for rapid reconversion is being placed upon the ingenuity and resourcefulness of business men themselves. Business likes nothing better; it is anxious to show what it can do.

Thus the return to a civilian economy is rolling along at a fast clip. First basic step undertaken was prompt cancellation of war contracts, quick and deep slashes into order backlogs to cut the cost and waste of war, to free materials, machines and labor for peace work, and to reduce the inflationary danger by spurring consumer goods output. Cancellations have been running into many billions, some $30 billions to date by the Army alone, and some $10 billions by the Navy, and the process is continuing. What such cuts mean to our economy is not difficult to imagine. To minimize the enormous deflationary impact, a second basic step followed virtually on the heels of the first.

It was removal of most of the wartime limitations on production and the use of materials to facilitate quick revival of civilian production. In this particular sphere, the War Production Board moved with commendable speed, rescinding in short order virtually all limitations except where certain critically short materials were concerned.

Way of Reconversion Smoothed

Both were logical moves, and therefore successful moves. Any other course would have hampered reconversion. They were accompanied by a third basic decision: Continuation of price control.

Back of all these moves and basic policies are of course the two major goals: Achievement of quick and smooth reconversion to avoid serious disemployment; and defending the price line to avoid inflation. Virtually every action is motivated by these primary aims and must be viewed in that light. This is particularly true of the pricing policy, regarded as the last bulwark in the fight against inflation.

Curiously, in formulating day-to-day policies, deflationary fears—occasionally stressed in pre-VJ-Day utterances—rank not nearly as high as concern over inflationary possibilities. Actually, there is a certain relation between the two. The reasoning is that high prices during transition and thereafter will threaten economic stability and pave the way for ultimate deflation, if not depression; at least they could take much of the wind out of the sails of the postwar boom. Overall policy aims at avoiding extremes, at spreading postwar potentials over the longest possible period by stabilizing prices at levels low enough to get the most out of existing purchasing power.

Resisting Pressure for Higher Prices

Thus if the Government has given way on wages, it was only where it was thought that the raises permitted would just about balance the deflation of wages in an expanding labor market, or where wage increases do not entail higher prices. Without question, defense of the price line is taken quite seriously, some signs to the contrary notwithstanding. The only concessions in price matters will be made where existing ceilings actually impede production, thereby prolonging the inflationary tension created by lack of goods. There is no change in OPA's major goal to see reconversion goods return to the market at or very close to 1942 prices; the only concessions will be liberalization of the pricing program to cut red tape and eliminate hardship cases.

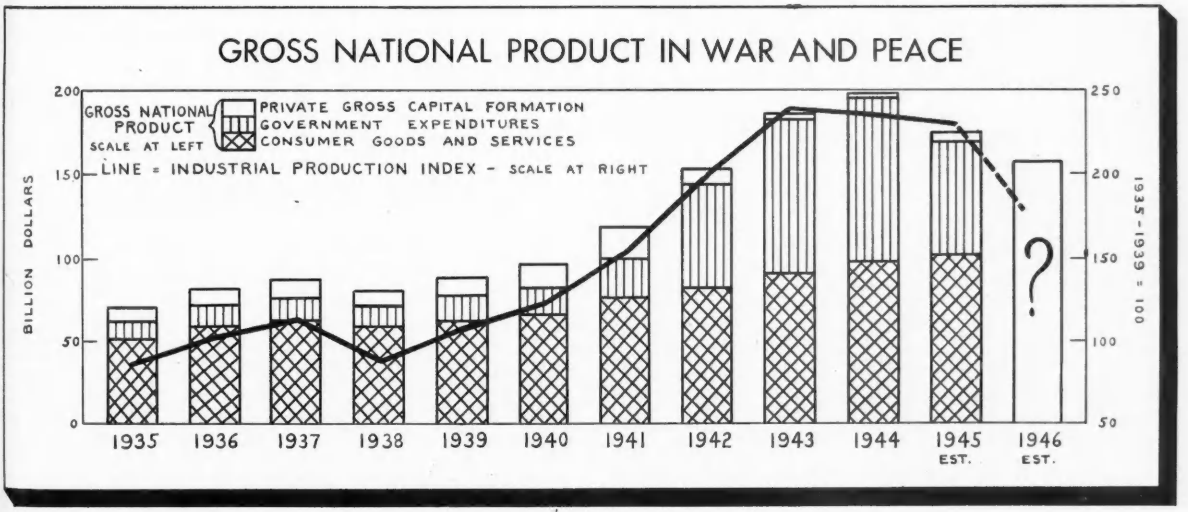
Together, the moves and policies outlined form an overall strategy for guiding our economy back to normal. But in formulating it, Washington has not overlooked the natural resilience of our economy, the capacity of industry and business to adapt itself to changed conditions and hence quickly to utilize the resources released by the war's end. This attitude is bearing fruit. As long as it prevails, industry can really go all out to speed transition. No other force that could be brought to bear in the situation could possibly be equally effective. The policies outlined enable business to plunge into reconversion without hesitation, and business is doing just that.

In formulation and executing reconversion policies, the Government—no less than business—is fully aware that the decisions taken now will exert a lasting and profound influence upon the nature of our economic system for years to come. The point is extremely important because in acting as it did, Government has made a major contribution to maintenance of freedom of enterprise. It was doubt as to the course to be taken, fear of perpetuation of controls and detailed regulation of business in peace time that was at the bottom of much of earlier apprehension anent reconversion. This spectre, fortunately, has now been laid. The reward will be a shorter and less painful transition and a more vigorous postwar economy. In short, the fruits generally born of a high degree of business confidence. That confidence today exists in gratifying measure; the stock market has been reflecting it in no uncertain terms.

Some Stress and Strain Unavoidable

All this of course does not mean that everything will be clear sailing from here on. Even at best, reconversion is a huge and ticklish job. As much as 70% of the output of the American industrial machine was devoted to the war effort, either directly or indirectly, and though fortunately well over half of industry has no reconversion problems, there will be plenty of dislocations and these will be felt in every corner of our economy. A constructive factor is that a large part of our economy is bound up in durable goods, so that revival of such production will have a relatively more stimulating and lasting effect. It is a circumstance that greatly aids the reconversion process, once it gets really under way.

There is now general abatement of fears that our economic structure will be badly strained as a result of the withdrawal of war spending which has been its main prop so long. On the other hand, it cannot be denied that some apprehension is still lingering lest a depression spiral be set in motion by transitional unemployment and a series of strike



waves which—breeding fears that would constrict consumer buying—might thoroughly deflate commodity prices. But such a possibility now appears rather remote.

Transitional unemployment, of course, is something that bears careful watching. So far about three million workers have lost their jobs, and more millions will in the months to come. By the end of the year, the total of idle workers may reach anywhere from 3.5 to 5 million, by early 1946 anywhere from 5 to 8 million, according to latest and more optimistic estimates. Actual figures will greatly depend on the tempo of demobilization of the armed forces, on how many veterans will return to the labor market while industry is still in the throes of reconversion. It is against this particular backdrop that many of the great congressional battles will be fought over such measures as the Full Employment Bill, over boosting unemployment compensation, the national housing program, foreign trade and labor legislation, and all the other backed-up problems of peace and reconversion, including the most important question of tax relief.

The problems of business and labor are well deserving first consideration, and they probably will get it. Business needs every possible aid that tends to speed and facilitate transition. But all this would be futile without industrial harmony, for a wave of industrial disputes would do almost irreparable damage at such a critical juncture. So far, such a threat has not materialized; realizing what is at stake, both labor and management has shown commendable self-restraint.

Still there are many strains and stresses. Congress is in a "the war is over" mood; subjected to many pressures, it may be far too ready to yield to the "let-down impulse" characteristic of postwar thinking. Yet letting down the bars too much at this stage would be premature; this applies particularly to the question of reconversion pricing and the ending of remaining wartime controls and regulations.

Pressure for relaxation if not abolition of price control is strong; yet, being regarded as a fulcrum for lasting prosperity by forestalling inflation and

Acme Photo

subsequent collapse, it is in this field in which Government will prove most adamant. The Government is determined to prevent the "flash" type of postwar boom by restraining prices until supply catches up with demand. Thereafter, volume production and competition is counted upon to hold prices down. Needless to say, there is much disagreement with this policy, especially if rigidly applied. This disagreement will find expression in Congress.

Then there is a first rate scrap brewing over unemployment compensation, to be raised to a maximum of $25 weekly for 26 weeks by means of Federal aid to the States. Many States don't like it; neither do a good many members of Congress but President Truman has recommended it for "emergency action" as one of the major links in the first line of defense against the economic impact of transitional unemployment.

The other major link is the Full Employment Bill, a measure designed to assure a job to everyone who wants one. Apart from fiscal implications—and they are far-reaching indeed—it would seem that neither of these measures is appropriate to the immediate problem presented. Chances are that by the time they have made their arduous journey through Congress, much of the transitional employment slack will have been taken up by private industry. Also it is feared that higher and broader unemployment compensation may well encourage unemployment while implementation of the full employment idea would certainly intensify the problem of inflation by encouraging Government spending schemes at a time when we are at last in a position to start bringing the Federal budget into manageable form.

Other problems vitally bearing on reconversion include the need of revising the Surplus Disposal Act to make it a really workable instrument; fortunately this need is well realized and Congress may fairly quickly accede the request of revamping the Act.

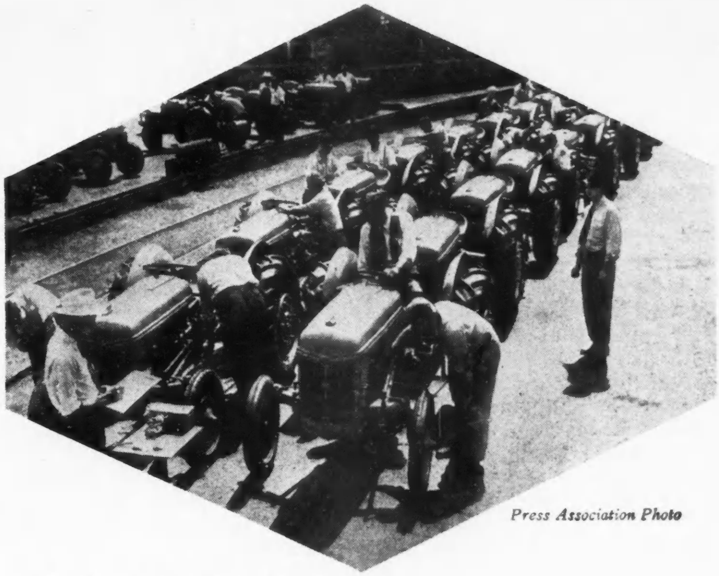
Limited Tax Reductions

Though perhaps, little realized by many, the question of ending the draft and that of quick demobilization are closely related; together they have a vital bearing on the unemployment outlook, as earlier pointed out. Congress will have the last word and here, too, pressure that is being brought to bear—in one way or another—is enormous.

It is still a guess what will be done about taxes. There has been much talk about slicing them but really heavy slashes seem very unlikely and heavy taxes are almost certain to continue for some time. Despite the war's end, Government expenses keep running high; billions are needed for demobilization, for maintenance of a peace-time army and navy, for debt service, for foreign aid and many other purposes. The basic tax philosophy apparently is to keep taxes as low as compatible with a sound economy. If this policy is followed, tax reductions necessarily must remain very limited.

In the labor field, the paramount question is how labor disputes shall be settled, whether through some such compulsory legislation as the Ball-Burton-Hatch bill or voluntarily through a Government-labor conference now being arranged by the Department of Labor. *(Please turn to page 684)*

Early Peace Prospects for *VARIOUS INDUSTRIES*



Press Association Photo

BY E. A. KRAUSS

ALTHOUGH Japanese surrender is only days old, industry is already moving ahead of schedule on reconversion. The pace set from the very outset has so far exceeded even the more optimistic predictions of those who right along have argued that a wholesale lifting of war-time controls should follow immediately upon the war's end.

Free to solve their own problems, manufacturers are making notable progress toward resumption of large-scale production of peace-time goods. Reports indicate with surprising uniformity that leading producers will have their production lines going one to two months earlier than originally anticipated. This is important, for it will shorten correspondingly the much-feared period of disemployment, with attendant benefits all along the economic front.

In the preceding article, we have outlined and discussed the policies of the Federal Government, either already implemented or in the process of formulation, to smooth the transitional path. The steps already undertaken have been most effective, both from a practical and psychological standpoint, for above all they have made it abundantly clear that there is no desire to perpetuate war-time controls beyond absolute necessity. Industry potentials for a quick comeback have been correspondingly raised, loss potentials from transition correspondingly lowered. Quite obviously, there is a definite dollar-and-cents aspect to the matter.

Another fortuitous circumstance, from the earnings standpoint, is the fact that the war ended during the second half of the year. It is an element that should tend to sustain corporate earnings both in 1945 and 1946. This year's earnings will be bolstered by high war-time profits accrued during the first seven months, minimizing importantly any subsequent earnings setbacks. 1946 results will have the benefit of near-capacity or even full volume production in many lines; in view of the quick reconversion tempo, the intervening period will prove sufficient in most industries to achieve volume output. All this is quite apart from the numerous tax angles which will tend to act as a sustaining factor on corporate net.

Though reconversion is still in its initial stage, it can be stated that for the bulk of American industry it will be not nearly as formidable a process as it would seem, considering the magnitude of our war effort. As a matter of fact, nearly 61% of our industries face no serious reconversion problem and can get into production in 30 to 90 days. Maximum time of reconversion, applying to an extremely small percentage, will not be more than twelve months and even in this category, the average will not exceed six months, due to gradual resumption of regular production between VE-Day and VJ-Day.

Rapid Reconversion

Little wonder, then, that industry is optimistic about the future. Even Government, thus far inclined to caution, is dropping a good many of its former reservations and concedes that despite initial lack of official preparation, reconversion got off to a flying start, that the "road back" is likely to be smoother and shorter than earlier assumed.

Thus we see radios back in two months; an avalanche of nylons by Christmas; automobiles in full production by the year's end, and washing machines and refrigerators in production by September and ready for retail volume sales early next year, to mention just a few of the coveted consumer durables that have always been the hallmark of the American standard of living.

The prospective tempo of industrial comeback is illustrated in the appended table, based on figures recently presented by the War Production Board. It is a cheerful picture, on the whole. As to over-all production, WPB expects that the nation's key industries by the end of the year will be producing more goods, in terms of dollar value, than they turned out in the 1939-41 period. In a survey cover-

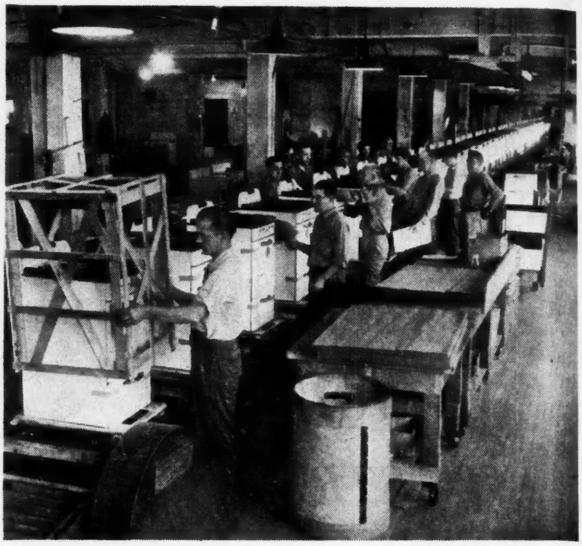
ing 42 industries which face reconversion difficulties in varying degree, the following interesting points were made: (1) Dollar value of production in August 1945 will be up to 48% of what the 42 industries considered a normal pre-war period, and employment will rise to 57%. (2) By December 1945, production will be 112% and employment 96%. (3) By June 1946, production may skyrocket to 187%, with employment up to 133% of the 1939-41 period. True, prices for durable goods today are higher than in 1939, thus unit production will not be as great as these figures would indicate. Still, even considering this factor, the perspective outlined is quite encouraging. In a good many instances, as evident from the table, the projected increase in production is quite steep, as for instance for passenger cars, refrigerators, laundry equipment, railroad passenger cars, electric appliances and others. The rate of increase, in inverse ratio, serves as a yardstick of the transitional problems confronting the industries listed.

In gauging early peace-time prospects of American industry, it is of course not feasible to generalize; for that reason we shall now consider the more important industries individually, and necessarily with considerable conciseness.

Aircraft Industry

AIRCRAFT: The aircraft manufacturing industry now faces the long-anticipated drastic contraction in military demand. Future peace time volume is estimated to drop to between 5% and 10% of wartime output, depending on the actual amount of military orders to maintain our peace-time air force. Such estimates are highly tentative and cover a wide range but there is reasonable certainty that military requirements will be larger than prewar, that experimental work will be encouraged leading up to a regular replacement program. The industry hardly faces any physical reconversion problem and moreover, aircraft manufacturers have returned by far the greater portion of war-inflated earnings to build up finances while further aids will be available in the form of EPT refunds, speeded-up plant amortization and in the carry-back provisions of the tax law. These will be important factors in the nearby financial outlook. Treatment of inventories is another one, and so is renegotiation of contracts. As one spokesman for the industry puts it: "If the industry gets an even break in renegotiation of the $19 billion in Government contracts still outstanding, it would pull through fine. If not, some aircraft companies will be put out of business." There is every reason to believe that the Government will adopt constructive policies in these matters and that the industry as a whole will emerge in fairly sound, if greatly deflated condition.

Curbs on civilian production have been lifted and a record business is expected from airline operators in coming years. Companies such as Douglas and Lockheed already have on hand substantial orders. Other manufacturers with promising commercial plane prospects are Consolidated Vultee, Curtiss-Wright and Boeing. With the expected postwar boom in private flying, private plane manufacture will aid postwar sales but the field is likely to be intensely competitive. Also, certain aircraft makers



Press Association Photo

have already signified their intention to venture into other lines; others may follow.

Chief future uncertainties are the competitive industry line-up and profit margins; it is something that can hardly be predicted today. Reflecting these, and as transition takes hold, dividends may well suffer in individual cases though 1945 earnings as a whole should be substantial. At the moment, the industry's position is highly speculative, despite longer term growth prospects.

Airline Operators

AIR TRANSPORT: Airline expansion is well under way and postwar outlook points to a probable traffic increase to several times prewar levels within a relatively few years, aided by wider acceptance of air travel and improvements in equipment and services. Financial results this year should show steady improvement, reflecting availability of more equipment, capacity traffic and rate reductions but future expansion needs will necessarily limit dividend prospects. Competition no doubt will be keen though probably not of the cut-throat variety sometimes encountered in other fields. The international route award to three domestic carriers, Pan American, American-Airlines-American Export Airlines and TVA holds interesting potentials though they are difficult to appraise at this time.

Broadly speaking, the earnings pattern of individual carriers will probably continue to reflect unevenly the general revenue uptrend but inherent growth prospects justify an optimistic attitude toward this group. Some of the stocks have already had sensational price advances, reflecting this outstanding "growth potential" but fundamentally the majority are still fairly cheap in direct ratio to their highly speculative aspects, based primarily on the prospect that for quite some time, capital expansion needs will take precedence over dividends. Promising situations include American Airlines, Eastern Airlines, TVA and North Western Airlines.

AUTOMOBILES: The automobile industry is now in the midst of reconversion and car output this year is expected to run as high as 500,000 units.

Acme Photo

Volume production should be achieved by the turn of the year when output should run at an annual rate of some 4,000,000 cars and trucks. Eventual postwar production of at least 6,000,000 units annually is envisaged for several years on basis of the well-known pent-up demand potentials. While transitional earnings may be low, with some companies perhaps running in the red for a limited period, this prospect is more than outweighed by the exceptionally bright earnings potentials that lie beyond. On the whole, the break-even point should be reached in three to six months, depending on reconversion problems of the individual companies.

Since the industry thrives on volume, new earnings records should be attained in the postwar, assuming tax relief, and until deferred demands are satisfied, virtually all companies in the field should do extremely well. Over the long run, however, normal competitive forces are likely to reassert themselves with the Big Three, General Motors, Chrysler and Ford, probably dividing about 85% of the entire market.

War-caused shortages are estimated in the neighborhood of 12 million or more automobiles, and to fill this gap and satisfy normal replacement demand, at least three years of record peace time output are held necessary. Average profit margins should improve over war-time levels even though manufacturing costs may be high. Some of the smaller companies, aided by considerably improved financial positions, should register sizable earnings while the anticipated sellers' market lasts.

Naturally, the excellent outlook of the industry has not gone undiscounted in the stock market; it has gone relatively farthest in the case of the more speculative stocks on the theory that there will be business for all, including the former marginal companies whose prewar showing was wholly unimpressive. Everything considered, stocks of the leaders—General Motors and Chrysler—warrant the most constructive view from a market standpoint. Among the independents, Nash-Kelvinator, Studebaker and Hudson can be most favorably regarded. Among the truck makers which likewise hold promising potentials for the immediate postwar years, Mack Truck has merit for the liberal income of the common. Among more speculative situations, White Motor deserves consideration.

AUTOMOBILE ACCESSORIES: Closely related to the automobile makers, this group has similar attractive possibilities. While parts and accessories makers face a mixed earnings outlook during the immediate months ahead, due to the exigencies of reconversion not only as they affect them but also their client industry, postwar earnings prospects point to new peace-time records. One element of uncertainty for individual units is the possibility of shifts from prewar relationships between parts suppliers and the leading automobile makers; but this will probably not be an immediate factor, if it ever becomes one. In the interest of speedy resumption of normal operations, a return to former industry positions will probably be the general experience.

Apart from new car business, replacement demand for some time should be unusually active. Moreover, the principal parts makers enjoy a considerable degree of diversification which should not only enhance immediate postwar net but tend to stabilize it later when demand-supply conditions in the automotive field return to more normal relationships.

Labor questions may remain a problem and higher wage costs are indicated, thus average profit margins may not fully recover to the best prewar levels but generally adequate (*Please turn to page* 680)

Estimated Monthly $ Volume of Production

(000 omitted)

	August	December	June, 1946
Passenger cars	$ 3,000	$201,000	$454,000
Tractor equipment	13,050	13,050	11,000
Construction machines	2,700	2,700	2,250
Appliances, small electrical	1,941	8,753	10,570
Bicycles	1,063	3,091	6,288
Domestic laundry equipment	1,325	12,574	22,044
Domestic mechanical refrigerators	2,687	24,460	41,274
Domestic sewing machines	110	1,338	2,495
Domestic vacuum cleaners	1,211	7,875	9,100
Electric fans	774	2,018	2,656
Electric ranges	798	4,117	7,535
Formed steel plumbing fixtures	......	1,700	3,100
Flatware	2,330	4,348	5,629
Watches	1,686	4,152	5,932
Heating equip., extended surf.	1,616	2,267	3,257
Metal furniture	2,430	12,470	25,896
Photographic equipment	2,485	4,580	5,833
Wood furniture	48,000	70,000	90,000
Farm machinery	70,000	83,333	94,444
Comm'l and ind'l refrigerators & air conditioned equipment	15,982	17,144	28,818
Warm air distrib. equipment	2,000	2,453	3,000
Fixtures, cast iron plumbing	880	2,500	4,400
Fixtures, plumbing, fittings and trimmings	2,292	3,630	5,380
Furnaces, warm air	5,397	7,987	13,626
Soil pipe and fittings, cast iron	885	1,400	2,100
Stoves, dom., cooking & heating	12,400	19,200	30,250
Printing trades machinery	1,813	4,244	7,808
Comm'l laundry and dry cleaning pressing machines	2,930	3,781	4,156
Railroad passenger cars	......	652	14,929

The Challenge of

NATIONALIZED INDUSTRY AND FINANCE

BY FRANCIS F. FULLERTON

PERHAPS the most significant meaning to us of the British elections (aside from ideological influences) is that it is virtually certain to make for widespread "state trading" in the post-war world.

Before the new sharp leftist turn in England, it was a fair probability; now it is rather inevitable. We had state trading as a certainty with Russia and some of the Near East countries; now, with the political and economic conditions of Europe what they are, we realistically face the prospect of a considerable part of the world confronting both our government and our private enterprise with a line-up of centralized economic power for negotiation.

The disadvantage is obvious for American free private enterprise, which is "atomized" or multiple, whereas much of the rest of the world will now be "homogenized" or unified and will deal in considerable part as nations rather than as individuals.

If this seems to be reading too much into the meaning of England's new partly socialistic economy, we have only to remember that even before the election the cartel was in high favor with English private enterprise; that is, *private* cartels. The socialistic turn merely shifts this status strongly toward *public* cartels; which is but another name for *state trading*. Quite true, this does not imply that all English trading will be state trading; private enterprise in England for a large portion of her lesser miscellaneous economic interests is not in immediate or particular danger. "Nationalization" seems only to be fairly clearly indicated for coal, transport, steel and iron, banking and electric power. There will quite certainly be state trading in coal, which need alarm nobody.

It is in the broad general field of export and import of basic goods that the outlook projects itself significantly. The intense English desire to regain at least a fair part of her lost world trade, and her fundamental necessity to import about half her food, drive her inexorably toward some compromise with a completely free and open market, (in which, competitively, she is now handicapped).

The Cartel Question

Thus, even under a conservative full private enterprise economy and regime, and even with the knowledge that her great friend, the U. S., opposed it, she leaned toward the cartel technique. Under a partially socialized political economy the example of Russian state trading, as well as the unwillingness of Labor to trust private enterprise alone, the impetus to public cartels, or state trading, will now be quite powerful. Drawing herself closely together for a supreme recuperation effort, and implemented by an overwhelming grant of power for policy change from the electorate, England will now quite surely meet the Russian and American economic challenge with the best concentrated integrated make-weight she can muster. She will have few inhibitions palsying her hand in trading with the world in the name of England as a whole, in such

trading as seems to her vital to her economic life. She will say (and Harold Laski will say it for the party in power in most persuasive words) that the election gave her Labor government carte blanche to set aside boldly the claims of private enterprise wherever and whenever unified national trading by the government rather than by private enterprise will promise better results in world competition.

England must import *all* her oil, copper, cotton, nickel, zinc, manganese, mercury, antimony, mica, chromite, potash; and *nearly all* her tin, lead, tungsten, together with (pre-war) nearly half her food. *Post-war,* with indicated higher standards of living for the new bulletined "age of the common man," this "*nearly* one-half" of food must perforce rise to *over* one-half. In addition she lacks nearly all the raw materials for her industries, and she has lost well over half of that heavy financial support coming from her role as leading banker and investor for the world.

Essential Concentration

She is thus more or less driven to cohere, *somehow,* her economic trading power, in order to bargain with it to the very best possible advantage. This she is forced to do even against any open-handed liberal impulse; she must use every bit of her advantage as a make-weight; so adverse is her economic balance sheet position. Even so, she will be obliged to ask the U. S. for economic mercy and competitive generosity, with only the reciprocal consideration that it is of consequence to the U. S. that she does not crash financially.

Such facts lend color to the belief now upholding British private enterprise (aside from electric power, coal, inland transport, steel, iron and banking interests) that the new Labor government will, as is traditional, be sobered by power and responsibility and go only a moderate distance toward socialistic nationalization. Even this may be delayed by the large capital outlays involved, and the complications ensuing because of American aid.

In the international trading field, however, the imperatives will be such that (as private enterprise in England has recognized well) unified action alone can give England any equality in facing the realities. It has long ago been hinted that if England finds the going too rough, she might, for survival, try a "federation" with her colonial powers, which have half of the world's population, for monopolizing their trade. This is a lot easier to threaten than to do, but England considers it a "life-and-death matter" to have enough export trade to pay, in balance, for her heavy imports. The war damage to her position now makes this situation so much worse that she must export 50% more than pre-war to break even. What is more, England's traditional policy of keeping down industrial development in the outlying Empire must now be scrapped. Canada, Australia, India and other parts of this Empire are tossing overboard this policy and themselves becoming the mother country's competitors.

What the attitude of the new Labor party will be to the proposal of an exclusive trading bloc, inclusive of France, Netherlands, Portugal, etc., which is state trading with a vengeance, there is no means yet of knowing. The probabilities are less for this type of semi-political state trading, incurring the displeasure of the U. S., than for the Russian type of out-and-out state trading. Participation of the new British government on higher levels with English private enterprise for unification of international trading, so as to enable English interests to speak as one voice, with one higher authority, is fairly certain, and not unreasonable in view of the quite considerable British government participations or collaborations for years past in vital matters such as oil, rubber, etc.

Government control to prescribe the percentage of trade which must be set aside for export is one part of the plan long acknowledged as needful for bettering England's world trading position; also financial aid from the Export Credit Scheme. These did not wait for Labor's emergence to power, and will merely facilitate the operation of state trading.

"Clearing agreements" or bi-lateral, as against multi-lateral trading, have already been widely developed by England into a "sterling bloc" of considerable size; but such bi-lateral international trading is known to incline toward a reduction of the possible trade between nations. It is obviously a make-shift for the superior values of multi-lateral trading. State trading, which usually uses the bi-lateral, or even the barter method, is, in the view of the U. S., too narrowly nationalistic, too decisive a limitation upon private enterprise, and too open to intrigue. *Private* cartels have already demonstrated the dangers of intrigue, and America, suspicious, is not yet clear in its own mind whether *public* cartels, or state trading, is any improvement, because Americans are always doubtful of government in business.

The world is now awaiting the English Labor party's policy decision, and America in particular is greatly concerned. For example, the American cocoa industry is at a crossroad on this account, because Churchill's government had already, on American protest, scrapped its plans for the state regulation and sale of African cocoa, which would have given England a stranglehold on 50% of the world's crop. The Labor government, committed to nationalization as a principle, may reverse this action.

What Future Policy?

At the same time this English Labor state trading policy may be extended to tea, rubber, tin, etc., in all of which America is vitally interested, and thus it can be seen with what anxious interest we wait for a policy pronouncement. The rumblings of reprisal and protection against any such state trading policy are already to be heard, as the American cocoa committee had already begun planning cocoa production in the western hemisphere if the English state control were not relaxed. Banking pressure against loans to an English government committed to state trading which puts us at a disadvantage is also a topic of discussion in certain financial circles. Rubber and tin, now that the war is over, will come out of enemy hands at once, and points up the issue sharply and immediately.

The new British Labor government is committed to public supervision of monopolies and cartels, and state aid for export trade, on condition that industry "be efficient and (*Please turn to page* 673)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

INCOMPLETE at this point yet far enough advanced to permit of general appraisal, the reconstituted Federal set-up created by President Truman has been more a change in personalities than one of policy. The numerical aspect, for there have been many changes in office-holders, suggests much more of a shake-up than actually has taken place; intimates of FDR still are around Washington, some of them promoted by Truman. The President's initial promise that he would attempt to carry out the programs of his predecessor seems to be borne out.

Washington Sees:

If dissolution of the Office of War Information is typical of federal agency disbanding which the White House has said will go forward speedily, the bureaus which came into existence after Pearl Harbor are likely to be around for a long time.

Except for some changes in the top positions and the elimination of its domestic branch, which always was a minor part of the operation, OWI still is very much alive. About 5,000 of its personnel are eligible to be blanketed into the State Department to continue, and expand, a world-wide plan of information dedicated to the purpose of teaching other nations more about this country, its people, their accomplishments. About 2,000 more will go to the Bureau of the Budget to continue their present assignment which is publication of the United States Government Manual. The domestic branch—with a personnel of only 179 in Washington—will close shop.

Personnel as of the date of President Truman's executive order terminating OWI was 9,000 of which 3,945 were aliens, whose number it is planned to reduce soon.

The new information division of the State Department actually will be larger than the foreign division of OWI which was its predecessor, at least in scope, for it will include the public relations section of the Office of Coordinator of Inter-American Affairs which beams its material to points south and which always has functioned independently of OWI.

JAMES F. BYRNES as Secretary of State and top man in the Truman Cabinet, was lifted out of the relative obscurity of a "career senator" from a southern state by Mr. Roosevelt. He came within reach of his present eminence under the guidance of the late President, who appointed him to the U. S. Supreme Court, made him war mobilizer and economic stabilizer, and took him to international conferences which built him up to the point where he was a "natural" for the job when party political considerations moved E. R. Stettinius out. Byrnes was schooled in Roosevelt ways and he continues along those paths.

HENRY MORGENTHAU probably would have remained as Secretary of the Treasury had the President who appointed him lived on. But while he was more a personal friend he was less a political associate of Mr. Roosevelt than was Fred Vinson, the present Secretary. Again, it was FDR who brought Vinson to the forefront; made him a federal judge, then brought him into the White House to share Byrnes' multiple burdens. He had little more than passing acquaintance with Truman and his present post was a promotion for a "Roosevelt man."

ROBERT E. HANNEGAN as Postmaster General was a natural. Almost always the winning party's national chairman has received that appointment, democrat or republican. Clinton P. Anderson, Secretary of Agriculture, won White House entree during Roosevelt days by taking the heat off the Administration with a food investigation. Labor Secretary L. B. Schwellenbach often was described as "more New Deal than Roosevelt."

ORIGINAL Roosevelt Cabinet members remaining are Navy's Forrestal, War's Stimson, Interior's Ickes, and Wallace in Commerce. FDR brought Clark, the new Attorney General into the Justice Department, placed him in line for advancement. Still around too are Roosevelt appointees Bowles in OPA, McNutt in Manpower, Krug in WPB. Underlying almost every move made was a record of Roosevelt association, a retention of the administrative status quo on fundamentals.

AS WE GO TO PRESS

Revocation of industrial construction controls clears the way for a 4.5 billion dollar program of new plants, alterations and equipment. WPB predicts a full billion dollars worth will be spent this year to put war-worn mills and warehouses in good condition.

Careful reading of the revocation order is warranted before time and money are laid out for planning. The terms are explicit. Example: a newspaper plant may be constructed but a radio station may not. "Manufacturing, processing, or assembling" are basic tests.

Weekly reviews of the effect of cutbacks on major labor markets are planned by War Manpower Commission. Selected are 166 principal zones believed to afford a good "sample," reflect the national picture. Experience will be used as basis for forecast.

First projections are: nine centers will be temporarily "distressed" by October 15 with from 20 to 25 per cent of the work force unemployed. Nine others were listed as likely to be "stringent areas," with unemployment less than four per cent and an actual shortage of labor for important jobs. Of the others, 69 are expected to be "labor surplus areas" with 12 to 20 per cent of the work force jobless; 77 will be "in balance."

World trade opportunity reports are being resumed by the U. S. Department of Commerce, will be issued weekly. This service was suspended when wartime conditions put an end to private trading, substituted lend-lease and government-to-government dealings.

Goal of the publication is to bring to attention of American business and industry, specific opportunities to export merchandise and direct them to sources of essential imports. Opportunities to bid on foreign contracts will be listed.

War plant disposal will be speeded by RFC insistence that the military procurement agencies free industries not absolutely essential at the present stage. Sales thus far have realized good returns: plants which cost about 25 million dollars to build have brought within one million of that figure. Results have been best when sales were made to the company which operated the plant under purchase option.

Good news for packaging industries is release of 30,000 tons of strategic tin stocks to ease the short supply situation until Malayan mines are operating, and removal of all restrictions on fibre shipping cases, cellophane, wax, glassine and parchment paper.

ODT surveys show western railroad freight conditions are approaching normal as armed force movements ease. However, heavy seasonal movement continues, and returning of troops will impose a traffic burden for another year.

Given the elbow room, authority, and discretion on prices he claims he has long needed, OPA Chief Bowles forecasts new era of action and results. Emphasis will be placed on holding prices at present level with no more rollbacks, no more industrywide cost studies and surveys.

New policy will be to grant increases with the fairer measuring stick of overall cost of living replacing the shopworn price history of commodities during the base period 1936-1939. President Truman agrees this is necessary step to achievement of full production and employment.

Irritation in Britain against cutoff of lend-lease which was led by Attlee and Churchill already is cooling off. The political chiefs "talked big" for a few days, spoke of submitting their invoices for prompt payment or checkoff on reverse lend-lease, but found Truman and Crowley adamant, backed universally in congress.

Lend-lease in brief: it began in March 1941, has totaled about 41 billions with about 5.5 billions in reverse lend-lease; value of goods, not including munitions, not yet transferred is about 2 billions, of stockpiles abroad about 1.5 billion.

Congress and the bureaus are at odds, and far apart, on what degree of government control should be kept through the period of reconversion. Federal departments want stop signs at every intersection along the route; congress members think business can be relied upon to drive with caution.

Capitol Hill, however, has its hand on the throttle. Some agencies go out of existence with V-J proclamation, some exist for the "duration" (a period of time not yet determined), and some were created by Executive Orders which place their fate in the hands of the President. But they'll all have to go to congress for funds eventually and can be clipped at that point. Witness FEPC.

Priority positions in the new legislative program have been assigned to measures bolstering state unemployment compensation systems, and amendment of the surplus property act. Former is essential to tide displaced workers over; latter, which chiefly involves one-man administration, is necessary to speed flow of surplus war goods into useful channels.

These are not priorities in point of importance, but they are cataloged as "musts" which can be disposed of speedily, give the nation the impression of action in congress while its committees undertake to whip into shape the termination and reconversion legislation which they dallied over, thinking the need for them would not arise for months, or a year.

Congress again is showing interest in reconstituting the national transportation setup, getting down to operating and economic fundamentals. That objective has been expressed in the past; it's nothing new. But this time the solons seem to mean it.

Both houses have investigations about to begin -- the Lea committee in the house and the McFarland committee in the senate. Each intends to cover aircraft, railroads, inland waterways, buses and trucks, and pipe lines.

To the former subjects of study -- "economy, safety, dispatch, adequacy" -- is added this time a new term, "interrelation." That could mean anything, probable meaning is merger.

The paralyzing lumber shortage which had cast gloom over post-war housing has been broken by army-navy announcement that a billion board feet will be released immediately from military needs and more billions will follow. Lumber scarcity will be a thing of the past by October 1.

Scrapping of all construction controls will be next in line. Revocation of limits on industrial buildings wouldn't dig deeply into the lumber stockpile; that's why it was confined to mills and factories. Now WPB is ready to erase controls all across the board.

Civil Aeronautics Board still thinks there may be considerable development of small airports for private plane use. That agency sees GI loans as incentive. But checkup with lending agencies fails to bear the forecast out. Amounts available are too small to finance purchase and preparation of flying fields.

Secretary Wallace who sparkplugged the campaign for more landing fields is losing interest. He is embarking upon a broad campaign to usher in the "brave new world," hopes to accomplish it within the government, but if he is hamstrung he will return to private life. He wants, for instance, to enter primary elections in behalf of "liberals." Truman won't stand for that.

TEN POTENTIAL PEACE-TIME LEADERS

—Five Low-Priced —Five Medium-Priced

BY THE MAGAZINE OF WALL STREET STAFF

The choice of stocks comprising this discussion has been made after a careful appraisal of those known factors which lend themselves to statistical analysis and considered judgment. The potentialities of all of these companies are rated as highly promising under a peace-time economy. As the overall industrial panorama is brought into clearer focus over the months ahead, inevitably the status of many corporations will be altered both favorably and unfavorably. To that extent the element of speculative risk involved in selecting common stocks at this time, with a view to profitably anticipating peace-time earnings and enhanced equity values, must be recognized. With this in mind the selection of issues made here has been confined to the lower price brackets, permitting the investor to make a diversified choice and spread his funds to include more than just a few issues. Such a program made up of issues herein discussed should produce better than average investment results over the months ahead.

Columbia Gas & Electric

All together four plans have been projected providing for the eventual integration of Columbia Gas & Electric. The latest plan was announced by the SEC less than two months ago. There is, of course, the possibility that the latest plan will be modified and changed to some extent, but in informed quarters the consensus is that the latest plan has a fair chance of being accepted by all parties concerned. Several months must of necessity elapse before the latest plans can be consummated, but in the meantime the company has applied to the SEC for permission to issue $22,000,000 notes, proceeds, together with treasury cash totaling $10,640,000, to be used to retire $32,000,000 5% debentures. By taking advantage of favorable financial conditions, a saving of some $1,200,000 annually will be made.

The latest plan proposed to finance integration of Columbia Gas & Electric through the sale of new debentures, and includes the disposition of common stocks of Cincinnati Gas & Electric and Dayton Power & Light. Temporary bank loans will be retired, as will preferred and preference shares. For the twelve months ended June 30 last, consolidated earnings available for 12,223,256 shares of common stock, after all preferred and preference shares dividends, were equal to 57 cents a share. Earnings per share of common stock in 1944 were equal to 59 cents. Once the proposed plan of integration has been made effective, a conservative estimate of potential earnings would seem to warrant a dividend of possibly 50 cents. Dividends totaled 20 cents a share last year and will probably be the same this year. Recently quoted around 7½ to 8, the shares are conservatively priced in relation to potential earning power following the effectiveness of proposed plans of integration.

Continental Motors

In common with many another industrial enterprise, military orders constituted an important portion of the output of Continental Motors during the past two and a half years. But there is ample reason for regarding the company's post-war prospects with optimism. In fact so promising does the company's management look upon peace-time prospects that a volume of business equal to that of the best years in its forty-three history is anticipated.

Continental Motors is a large independent manufacturer of internal combustion engines used in the manufacture of trucks, buses, agricultural implements and small aircraft. Company's products are used to provide motive power in many industrial fields. Last year the company acquired the Gray Marine Motor Co., the largest manufacturer in the world of marine inboard engines, and further broadening its markets and strengthening its competitive position was the decision to include the manufacture of a line of diesel engines.

In all of the principal outlets for Continental products there is a large pent-up demand which has accumulated through the war years and which promises to find early reflection in earnings. The necessary steps to convert to a peace-time basis present no serious problem. In fact reconversion should be comparatively simple. The nature of the company's business obviously is such that wide variations occur between good times and bad, but for the next several years stockholders seem warranted in looking forward to very profitable operations. Capitalization consists solely of 3,000,000 shares of common stock, on which dividends have currently been paid at the rate of 20 cents quarterly. Earnings were equal to $1.95 a share in 1944, and results for the year ended next October 31 should closely approximate that figure. Most recent balance sheet disclosed a strong financial position. Selling around 12, the shares marketwise seem to have accorded only a conservative appraisal to the company's prospects over the months ahead.

General Printing Ink

Recently General Printing Ink has embarked upon a program of expansion which bids fair to have an important bearing upon the company's future position and prospects. The company, rated as one of the largest manufacturers of printing inks, which find a large market with printers of newspapers, magazine, catalogues and advertising matter, has acquired the A. C. Horn Co. The latter organization

engages in the extensive production of paints, varnishes and kindred products and last year reported total sales of $5,600,000 comparing with sales of some $13,000,000 for General Printing Ink. Present plans call for further important expansion of both manufacturing and research facilities, and in order to more fully reflect the scope of broadened activities, the company will shortly change its name to Sun Chemical Corp.

Company's latest report for the six months to June 30, last, revealed profits of $334,899 equal to 33 cents a share on 775,292 shares of common stock, after preferred dividends. In the same period a year ago, 24 cents a share was reported and for all of 1944 per-share earnings amounted to 63 cents. It is reported that sales and earnings of the recently acquired Horn Co. this year, were ahead of those for the same months last year. At recent levels around 15, General Printing Ink common would appear to be quoted at a rather high ratio to indicated earnings. Yet with no serious reconversion problems confronting the company, and with demand for its products from both old and new sources likely to show substantial gains, the shares invite favorable consideration.

National Supply

The months ahead should witness greatly increased activity in all phases of the oil and gas industry, with accompanying benefits reflected in the sales and profits of National Supply. This company engages in the manufacture of an extensive line of equipment, machinery and tools used in the production of petroleum. Products include various types of pumping machinery and diesel engines. Distribution is accomplished principally through a system of branch stores located throughout major oil fields. Last year the company's gross business increased 17 per cent notwithstanding a drop in military orders and sizable refunds on war contracts. This experience would seem to augur favorably for the months ahead.

Company's funded debt was completely eliminated in 1944 and the balance sheet as of June 30 last showed cash in excess of $11,000,000, while working capital totaled $43,700,000. Ahead of the 1,154,928 common shares are 226,404 shares of $5.50 prior preferred, 64,687 shares $6 prior preferred and 279,537 shares of $2 preferred shares. On the latter issue, accumulated unpaid dividends total $4.50 a share. Dividends on the common are not an early prospect but the marked improvement in the company's finances and the promising postwar outlook lend speculative attraction to the issue. For this reason, though not a current dividend payer, we have included the stock among our recommendations, primarily on basis of price appreciation potentials.

Union Bag & Paper

The wartime difficulties which beset the paper industry seem likely to be greatly mitigated over the coming months, although their complete elimination will doubtless take some further time. From the standpoint of demand, on the other hand, the outlook for the industry leaves little to be desired. This would seem to hold particularly true in the case of the paperboard and package paper divisions, in both of which Union Bag & Paper is prominently represented. The company is the largest manufacturer of paper bags, while output is diversified to include paperboard and various types of wrapping papers.

Recent years have witnessed marked strengthening in the company's industrial position; output and efficiency have been increased; and finances improved. Generous expenditures for increased facilities have cut into stockholders' share of earnings, as have excess profits taxes. Last year the latter item was some $3.70 a share comparing with earnings available for the common equal to $1.25 a share. Reduction in corporate outlays and any tax relief would obviously redound to the benefit of shareholders. Aided by an increase of $3,000,000 in sales, unaccompanied by a proportionate increase in expenses, net in the first half of the current year was equal to 82 cents a share for the 1,271,437 shares of capital stock, a gain of 20 cents a share over the showing in the same months a year ago. Dividends totaled 75 cents a share in 1944 and should be at least on a par with that amount this year. Funded debt totals $5,859,089. The company's promising prospects coupled with its strong trade position gives the stock a well defined measure of attraction.

Ten Potential Peace Time Leaders

	In Dollars Per Common Share: Book Value	Net Current Assets*	Cash Items	1936 9 Avge. Net	1944 Net	1936-9 Avge. Div.	1944 Div.	Div. Yield	1944-45 Price Range	Recent Price	Price Earnings Ratio
Columbia Gas	$11.21	None Avail.	$4.73	$ .47	$ .59	$ .21	$ .20	2.7%	8⅛- 3⅞	7⅜	12.5
Continental Motors	7.60	3.68	13.04	def .13	1.95	Nil	.60	5.0	12⅜- 5⅛	12	6.1
General Printing Ink	4.48	1.64	2.20	1.05	.63	.90	.40	2.7	16 - 6⅝	14¾	23.4
National Supply	16.37	2.09	8.22	1.08(a)	2.18	......(c)	Nil	......	19⅝-11¾	17¾	8.1
Union Bag & Paper	13.89	.85	2.73	.83	1.25	.25	.75	3.8	20⅝- 9¼	19¾	15.6
Crane Co.	37.21	15.49	11.47	1.72	2.49	.40	1.50	4.0	37½-18¾	37	14.8
Pressed Steel Car	10.51	2.35	7.28	def 1.23(a)	2.23	.06	1.00	4.6	21⅞-11¼	21⅝	9.7
Sylvania Electric	20.73	12.92	18.57	1.63(b)	2.04	1.15(b)	1.25	3.5	36⅛-26¾	34¾	17.0
General Tire	32.87	7.58	7.18	2.38	3.53	.37	1.00	3.1	32⅜-19¾	31⅜	8.8
Rheem Mfg.	11.84	5.29	3.88	1.31(a)	1.85	.93(a)	1.00	5.1	21¼-13	19¼	10.4

*—After prior obligations.
(a)—1937-9 average.
(b)—Adjusted to reflect 2-for-1 common split in 1941.
(c)—Dec. 22, 1937 paid 1/10 $2 pfd. stock for each common sh. held.

Crane Co.

The revival in private building, once it gets under way, should find Crane Co. well in the van of leading beneficiaries. The company's position is that of the world's leading manufacturer of valves, fittings and similar products. These have wide application in a variety of major industries. In addition, the company produces an extensive line of heating, plumbing and sanitary items. Under normal times, it does a sizable business abroad and revival of these markets is a significant potential in the company's prospects.

Although sales have averaged, during the past four war years, double the volume for the four preceding years, the elimination of war demand should in a large measure be offset by pent-up demand from peace-time sources. Moreover any relief in taxes would have marked bearing upon profits because wartime sales have not been accompanied by anything proportionate in the way of larger net. Pursuing a conservative dividend policy, additions to working capital have been applied toward reduction of debt. This year brought the retirement of the last $2,000,000 of funded debt, which totaled $8,000,000 at the end of 1942. Ahead of the 2,348,628 shares of common stock are 160,000 shares of 3¾% preferred stock recently issued to provide for the redemption of outstanding 5% preferred stock. Maintenance of present dividends of $1.50 annually are a reasonable certainty and the shares offer a desirable medium for participation in the forthcoming building boom.

Pressed Steel Car

The management of Pressed Steel Car seems warranted in tackling reconversion with a measure of equanimity. By the end of September all of the company's funded debt, together with both issues of preferred stock, will be retired—the former by redemption and the latter by conversion to the common stock. Assuming full conversion of the preferred issues, capitalization will then consist solely of 949,897 shares of common stock. This is the ideal type of capital set-up for a company identified with such an erratic business as railway equipment manufacturing.

The company is a ranking manufacturer of freight and passenger cars and a number of sundry items used in the maintenance of railroad rolling stock. Present plans call for the conversion of a portion of manufacturing facilities to the output of household appliances, heating equipment, refrigeration units and air conditioning equipment. The success of this venture must yet be demonstrated, but in the primary field of railway equipment, the company should be a leading beneficiary from the long pent-up demand, both foreign and domestic, for carrier rolling stock and equipment. Earnings should give support to the present $1 dividend and some increase next year is a possibility. Current price for the shares around 22 suggests speculative consideration for the medium term.

Sylvania Electric Products

Although identified with the highly competitive fields of radio, electronics and incandescent lighting equipment, Sylvania Electric Products has ably held its own and in recent years shown steady growth. There is scant reason to doubt the company's ability to continue doing so. The cessation of war will result in a sharp drop in sales volume, but will create no serious reconversion problems. Moreover it is anticipated that marked improvement in radio receiving equipment will create a large degree of obsolescence in sets owned by individuals and stimulate demand for replacement.

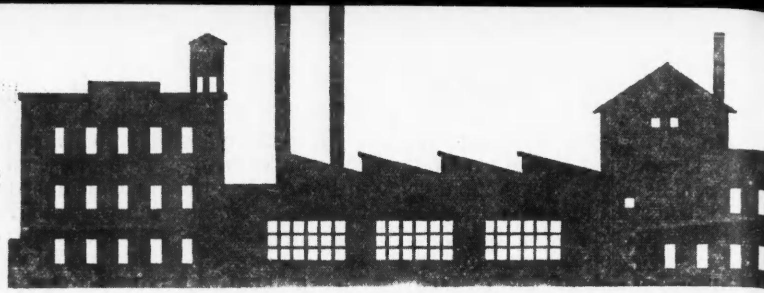
Sylvania is the second largest producer of radio tubes. Other products include incandescent and fluorescent lamps and related items. Acquisition of Colonial Radio last year gave the company important representation in the field of radio receiving equipment and greatly enlarged the outlets for its primary products. Sales for the first six months of this year, with the benefit of the Colonial unit, set a new high record, a gain of 88 per cent over the corresponding period a year ago. Earnings in the current period were equal to $1.59 a share on 1,005,000 shares of common stock, comparing with 84 cents a year ago. Even granting that this may constitute the company's peak level of earnings for some months to come, long range potentialities in a peace-time industrial environment as currently envisaged, appear sufficiently well defined to provide the shares with a degree of investment attraction.

General Tire & Rubber

General Tire & Rubber is well situated both from an industrial and trade standpoint to reap a full share of the postwar harvest resulting from the long accumulated demand for tires and tubes. This demand will originate not only with millions of owners of private automobiles, but from operators of large truck and bus fleets as well. The company, although ranking well behind the Big Four of the rubber industry, has demonstrated good competitive stamina under conditions much less desirable than those which promise to favor the industry for the next two years or longer. Tires, tubes and repair accessories comprise about two-thirds of the company's sales with mechanical rubber goods accounting for the major portion of the balance.

Manufacturing facilities are fairly well integrated to include the principal factors of production. During the war General operated a synthetic rubber plant for the Government at Baytown, Tex. A 25 per cent interest is owned in the Mansfield Tire & Rubber Co., and the Yankee Network, a large broadcasting chain is also owned. The company does little or no original equipment business, but depends upon replacement sales through independent dealers and service stations. Per-share earnings on the common stock for the six-months' period to May 31 last amounted to $1.77 comparing with $2.02 in the same period of 1944. Sales for the most recent period were up $11,000,000, the decline in share earnings reflecting an increase in the outstanding common shares to 592,719 from 526,862. Ahead of the common shares are 75,000 shares 4¼% preferred stock. There is no funded debt. Selected with a view to the reasonably early promise of rapidly mounting civilian sales, General Tire & Rubber common shares should appeal favor- (*Please turn to page 684*)

Companies



TO BENEFIT FROM TAX WINDFALLS

BY EDWIN A. BARNES

WITH the high tide of war expenditures abruptly terminated, many provisions of both the contract termination and the tax law will now become operative to conserve and strengthen the huge industrial reservoir of liquid resources for the purpose of building a prosperous peace economy. While working capital of American business now stands at an impressive peak of some $47 billion, staggering amounts are tied up in military inventories and other assets are tied up in facilities hastily erected for war production. Costs of reconversion, also, and expenses which may thrust many concerns into the red for months to come, are bound to cut into cash balances, the impact sure to create special hardship for thousands of small concerns whose resources were strained by abnormal production for war. And above all other considerations, ample cash will be required to build and sustain the long planned industrial world of tomorrow.

Alert to alleviate the shock of a drastic transition and to smooth the path to postwar prosperity, the Government and Congress have formulated a series of tax measures to accelerate the return of production and employment to a level far above prewar, each one involving different methods of easing financial burdens for industry. Pieced together, they present an encouraging pattern of Governmental give and take which assures more rapid stabilization of the nation's economy on a sound basis.

While with cessation of hostilities the need for enormous Federal revenues to purchase munitions has ceased overnight, it will be impossible for some time yet to translate this into drastic curtailment of Federal expenditures. Cutting of tax rates, therefore, has been deemed impractical as an immediate alleviative for business although everyone agrees that excess profits taxes are slated for radical downward revision or elimination in the coming year. This form of taxation was a purely wartime contrivance, extraordinarily fair and effective in supplying to June 30, 1945 about $14.5 billion of revenues to support the war effort, an amount equal to 12.2% of all internal revenue receipts since 1940. But to burden industry with such a drain upon its operating income during the battle to achieve full productivity would be both unnecessary and unwise.

Speed-up in Refunds

Pending determination of future reduction in tax rates, prompt steps have been taken too loosen up some $5.5 billion cash for industry by liberalization of the original terms of imposing EPT, by speeding up substantial refunds of taxes to industry, by advancing the maturity date of postwar credit bonds, and by easing the limits by which "carry-back" privileges may be employed. The benefits thus afforded are spread broadly over all industrial tax payers, regardless of size or need, as it has been felt unjust to draw any line of distinction in the process.

Small business, however, has been favored with a further reduction in tax liability by extension of exemption from EPT when net earnings fail to reach $25,000, as against the former mark of $10,000, thus freeing some 50,000 concerns from all liability for this tax. This move carries more than casual significance as the numerically large group of small concerns in our economy generally needs all the cash they can scrape together and employment by them normally absorbs a substantial percentage of the national labor pool.

To speed up and increase tax refunds the Government has cut a lot of red tape by permitting payment within 90 days after claims have been filed, as well as by alleviating the restrictions which have heretofore limited the validity of the refunds requested. No longer is it necessary to wait for annual audits to substantiate the claims presented, nor where the amounts involved exceed $75,000 is the

Companies Where EPT Relief Points to Higher Postwar Earnings

	1944 (in dollars per common share)			
	Pre-Tax Earnings	Reported Net	EPT Per Share	Net Earnings If EPT Rate Is 60%
Allis Chalmers	$28.74	$4.77	$20.59	$10.82
American Car & Foundry	36.20	7.19	25.46	14.67
American Locomotive	20.46	4.58	13.89	8.66
Bohn Aluminum & Brass	24.77	6.21	16.87	11.17
Borg Warner	16.88	3.42	11.57	6.82
Caterpillar Tractor	14.49	4.07	8.03	6.43
Chrysler	16.31	5.70	5.37	7.28
Crucible Steel	46.22	5.23	36.93	16.09
Eastman Kodak	28.31	9.15	14.13	13.30
Eaton Manufacturing	22.43	5.30	15.28	9.79
Electric Auto Lite	16.43	4.09	11.31	7.41
Fairbanks Morse	27.81	4.75	21.40	11.04
Firestone	26.06	7.13	13.40	11.07
Food Machinery	43.98	8.61	26.35	16.36

approval of the Congressional Joint Committee on Internal Revenue Taxation required. A 6% penalty is imposed if subsequent investigation proves the claim to have been unwarranted, and large payments merely have to be reported to the Committee. As a result of this stepped-up procedure, an estimated $1 billion of refunds should pour into industrial treasuries by the end of 1946, much of it sooner, in contrast to perhaps years of delay under previous methods, and the flood of cash will appear just when most urgently needed.

Of highly constructive import to many concerns faced with heavy reconversion costs and operating losses during varying periods until volume can rise to a break-even basis, are the new methods of applying "carry-back" provisions. If net earnings fall below the established EPT tax credit basis, the deficiency can be thrown back as a deduction from earnings reported in the second previous year, providing a valid claim for refund of taxes paid during that period is filed, and in about three months a Government check should arrive to swell the claimant's bank account. In readjustment of the taxes, the taxpayer merely has to file a statement of what his deficiency is estimated to be during a given period, but he will be out of pocket to the extent of 6% on any over-pessimistic guesses.

To visualize the opportunity under discussion, assume that a concern with a tax base of $1 million enjoyed war earnings of $2 million in 1943 and had paid an EPT tax of $950,000 in that year. Transitional upheavals during the last half of 1945, might reduce his taxable earnings for the current year to a mere $50,000, however. While in that event the $950,000 deficiency achieved would serve to wipe out the equal amount of EPT taxes paid in 1943, 40% of the earnings subject to EPT, would still be due the Government for the additional normal and surtaxes which would accrue. Thus the cash refund to which the concern would be entitled would be $570,000, a sum which would come in very handily during reconversion. Again, assuming earnings and taxes in 1944 identical with those of the previous year, and that the concern was making quarterly payments of the $950,000 EPT tax during the current year, it would be permissible to stop further remittances as well as to file a claim for any balance due from the Government.

Permission to credit closely defined expenses of reconversion against taxable income will additionally conserve cash resources for every concern which has suffered disruption of its facilities due to war production. While many misunderstandings of this measure are bound to occur, the broad principles involved are clear-cut. Where machinery has been stored during war years, cost of returning it to operating efficiency on factory floors will be considered as a normal operating expense, but expansion of buildings or purchase of new equipment for additional output must be charged to capital account. While only time can determine the total tax savings which will accrue to industry as a result of this ruling, the sum will be immense and particularly beneficial in figuring carry-back claims previously discussed, as peak reconversion costs will occur during near-term months. The automotive industry will be a major group likely to gain substantially from the measure, and among the electric manufacturers, Westinghouse expects an outlay of some $25 million to restore facilities to normal production.

As a partial offset to the immense EPT levies imposed on industry during war years, the Government has issued to EPT payers non-interest bearing bonds equal to 10% of the taxes paid, their maturity to be on or before six years after the close of war. These postwar credits, under a revised ruling, may now be applied currently as well as to future tax returns, and all amounts outstanding on January 1, 1946 will be redeemed for cash. The combined effect of these two rulings will be a reduction in industrial tax outlays of $1.5 billion and an additional return to corporate treasuries of $1.3 billion through redemption, or a total of $2.8 billion cash by the current year's end, according to Government estimates made before the Japanese collapse. The amount of paper which will be converted into cash through redemption of postwar credit bonds is widely distributed, as reference to the accompanying table will show. The list of course tells only a small part of the story, and from a broader view, receipt of a few thousand dollars by some small concern might be more significant than $35 million to be received by General Electric or $23 million by du Pont.

Rapid Plant Amortization

Outlays by private concerns to expand facilities for military output sliced deeply into working capital, or brought about heavy borrowing. In such cases, the Government until recently had allowed amortization of these plants over a five year period, provided Certificates of Necessity had been issued to assure that the expansion had been undertaken for exclusive war production. It is estimated that about $6.8 billion of the Certificates mentioned, irrespective of Government financed plants and private new facilities not certified, have been issued since the outbreak of war, of which $2.9 billion now represent buildings and machinery as yet unamortized. Since these plants are no longer to be used for their origi-

Companies Where EPT Relief Points to Higher Postwar Earnings

	1944 (in dollars per common share)			
	Pre-Tax Earnings	Reported Net	EPT Per Share	Net Earnings If EPT Rate Is 60%
Inland Steel	$17.03	$6.28	$ 7.10	$ 8.36
International Bus. Mach.	33.33	8.90	19.80	14.72
Mack Trucks	27.26	6.00	19.29	11.67
Marshall Field	9.30	1.59	6.94	3.63
National Distillers	15.34	4.31	9.96	7.24
Neisner Bros.	14.42	4.21	7.92	6.54
Penney, J. C.	20.98	6.25	12.79	10.01
Pullman	13.30	3.99	8.37	6.45
Schenley Distillers	34.13	7.66	24.43	14.84
Sears Roebuck	17.65	5.83	9.88	8.73
Studebaker	7.87	1.74	5.39	3.32
Thompson Products	23.30	5.18	16.12	9.92
Twentieth Century-Fox	20.21	6.04	12.36	9.67
Westinghouse Electric	8.14	2.06	5.30	3.62
White Motor	15.14	3.37	10.30	6.40
Worthington Pump	57.32	8.42	45.80	21.89

nal purpose, permission has now been granted to re-compute their amortization over the period they actually were in use.

In actual tax accounting, the cash refunds which will be made within 90 days to meet these heavy amortization claims probably will not exceed $1.7 billion, because of readjustments arising from added normal and surtaxes, but even when distributed among a long list of munition makers, substantial benefits to individual concerns will accrue. An appended table lists the working capital of a number of concerns along with the amount of additional amortization which will form a valid basis for tax refunds on amounts paid during war years.

Reflection on Balance Sheets

Year-end balance sheets of representative companies such as these are likely to show some astonishing changes. While it is impossible to accurately estimate the refunds which will accrue, according to official estimates 60% of unamortized amounts would be a fair guess. In the case of Dow Chemical, this would produce a cash inflow of about $24 million during the next few months, based upon unamortized facilities certified as $42.36 million. Depreciation and amortizaton reserves would soar from a current impressive level of $57.7 million to $81.7 million, reducing the net book value of fixed assets originally costing $124 million to $44 million. Small wonder that Dow has called for redemption on September 1, 1945 of its entire funded debt of $12 million, as even after this process some $14 million cash would swell an already amply fortified treasury.

Perhaps of more importance in the changing economic picture is the potential benefit of accelerated amortization to smaller concerns, and with this premise it is interesting to note its impact upon Evans Products Co., for example. Unamortized facilities of this company amount to $895,000 compared with working capital of $996,000, a rather tight position as its ratio of current assets to current liabilities was only 1.7 on June 30, 1945. Evans started war production in 1944, opening a new factory as late as April of the current year to assemble space heaters for war housing, having borrowed $2.7 million from banks for this and other purposes. Through prompt liquidation of Government inventories and a potential influx of nearly $600,000 cash from tax refunds for amortization alone, its financial position will be greatly strengthened during near term months, enabling it to emerge comfortably into its postwar program.

Farsighted sponsors of EPT in 1940 accomplished an extraordinary feat in framing the provisions of the tax law, as they not only succeeded in sustaining tax revenues at an adequate level without too serious an impact upon industrial earnings, but also projected their vision ahead for nearly five years to provide palliatives for the aftermath of war production. The manner in which the long burdensome aspects of EPT are changing their color to a genuinely rosy hue attess to the wisdom of its originators. Indeed, so important is the implementation of the revised rulings and normal processes of the Act during reconversion, that too hasty steps to remove entirely its "weight" from the back of industry would prove most unfortunate. But changes in the Act are not likely to destroy its constructive features, at least until transition has become a matter of history.

Question uppermost in the minds of all investors, with the ordeal of reconversion taken for granted and unlikely to continue for many months, is the extent of tax relief during immediate postwar years. Revision of Federal budgetary estimates pointing to a decline of $33.7 billion in net Government expenses during the fiscal year ending July 1, 1946, not to mention a potential further cut of $15.5 billion as a result of the sudden Japanese surrender, would seem to support early revision of EPT. Only Congress can decide whether the tax will be completely eliminated or merely reduced; thus the answer to the question is as yet undeterminable. Additionally volume and earnings of most concerns will be so distorted during the first year of transition that comparisons with 1944 are not at all dependable, and the intricacies of tax calculations involve endless variation.

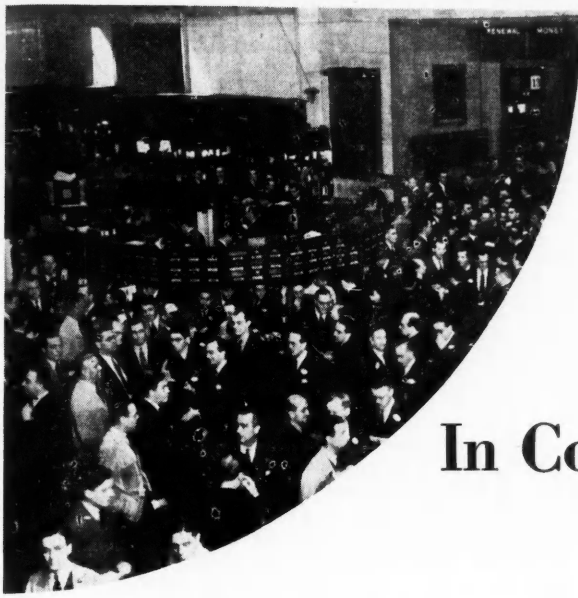
However, we present a table showing 1944 per share earnings of selected (*Please turn to page* 684)

Relation of Unamortized Plant Facilities to Working Capital of Selected Companies

	Working Capital	Unamortized Facilities
	(000 omitted)	
Baldwin Locomotive	$17,167	$3,929
Caterpillar Tractor	42,698	5,008
Bendix Aviation	51,019	3,158
Eastman Kodak	115,485	5,820
Inland Steel	71,906	14,823
Sperry	22,788	5,231
Evans Products	996	895
Gaylord Container	7,177	2,993
Cramp Shipbuilding	4,311	7,620
Pittsburgh Forgings	2,081	418
Spicer Manufacturing	6,595	7,148
Niles-Bemont-Pond	10,850	1,950
Federal Mogul	3,101	1,455
Budd Manufacturing	18,366	2,760
Douglas Aircraft	49,674	3,806
Dow Chemical	37,715	42,369
Martin, Glenn L.	17,375	2,992
Diamond T Motor	5,218	636
Standard Steel Spring	5,031	818
Thompson Products	14,070	1,516
National Supply	42,713	2,687
Ex-Cell-O	6,206	661
Food Machinery	17,578	1,436

Companies That Can Look to Sizeable Tax Refunds

	Estimated Postwar Tax Refund
Allegheny Ludlum Steel	$3,211,000
American Locomotive	6,092,000
Bendix Aviation	14,147,000
Borg Warner	5,856,000
Chrysler	3,804,000
Crucible Steel	4,558,000
Deere & Co.	3,751,000
duPont de Nemours	23,002,000
Eastman Kodak	10,211,000
Fairbanks Morse	3,055,000
Firestone Tire & Rubber	4,946,000
General Electric	34,915,000
Goodrich	5,834,000
International Business Machines	6,640,000
Mack Trucks	3,137,000
Martin, Glenn L.	8,663,000
National Steel	3,756,000
Packard	4,624,000
Penney, J. C.	6,032,000
Pullman, Inc.	6,438,000
Radio Corp. of America	5,470,000
Sears Roebuck	6,844,000
Schenley	5,280,000
Stewart Warner	2,927,000
Twentieth Century-Fox	4,359,000
Union Carbide & Carbon	12,014,000
United Aircraft	4,190,000
U. S. Rubber	5,682,000
Westinghouse Electric	17,867,000



Can We Expect A Futher Decline In Common Stock Yields?

BY GEORGE L. MERTON

IN some quarters one hears much these days of the thesis that in postwar markets, the yield ceiling for investment grade stocks as expressed in terms of yield on the Dow industrial average may drop to 3%, equivalent to a Dow industrial average of about 225%, on basis of current dividends. Thus with peace, it is argued, the scope for further advance of the market will be materially increased.

This reasoning appears based primarily on money market conditions and trends but also of course on the general expectation of postwar prosperity, on the outlook for excellent business volume and earnings, for tax relief, and on expectation of continued governmental encouragement to business such as is now evident as industry gears itself to peacetime operations, Also, presumably, it takes into consideration the inflationary factors present in our economy.

On all these counts, naturally, it is not too difficult to envisage an ultimate further market rise with resultant narrowing of average yields on common stocks. In fact, such is the general expectation once the reconversion hurdle is successfully taken.

The Dow industrial average had earnings during 1944 of about $10 per share and paid dividends of some $6.50; in other words it is currently selling at about 17 times earnings and is yielding 3.77% or only little more than the return on high-grade preferred stocks. In fact, typical high-grade common stock yields at recent highs yielded less than preferred stocks. With no uptrend in money rates in sight for some time, an average 3% yield on commons thus **could** be a valid expectation. However, it is by no means a foregone conclusion nor, if it should occur, must this necessarily provide a potential for a 60 point market advance in terms of the Dow industrial average.

Some advocates of this theory proceed from the assumption that the change from a wartime to a peacetime market will be an important element in bringing about a lower yield basis. They point out that if wartime markets, with all the attendant uncertainties, have yielded an average of around 4% as they did in recent months, a 3% basis for peacetime markets should be a reasonable expectation. However, this reasoning isn't quite airtight .

In glancing over the record, we find that a 4% yield or thereabouts was established only recently, since May this year, that is at a time when the prospect of early peace began to take definite shape. Prior to that and since the start of the year, the yield rate on the Dow industrial average had hovered around 4¼%. It was between 5% and 4% from February 1943 to April 1945, and between 6% and 5% from November 1942 to February 1943. In other words, the record shows a considerably better than 4% average yield for the war period and the narrowing to a roughly 4% basis, equivalent to a Dow industrial average of 170, began only when peace loomed nearer. Over the entire war period, the yield basis ranged from a high of 7.91% in April 1942 to a low of 3.77% very recently when the Dow industrial reached 172 against the low of 92.92 at the outset of the present bull market.

Postwar Potentials

In recent markets, optimism has been running high, tending to emphasize the good and minimize the uncertain. Conceivably, the unfolding of postwar potentials may push the market still higher but a corresponding narrowing of the yield basis would only occur if dividends remain unchanged. This cannot be viewed as a certainty. Rather, with business booming and taxes eased, one may legitimately expect eventully more liberal disbursements to stockholders in which event the Dow industrial average could rise to, say, 225, and yet the yield basis would not contract further; under certain conditions it may even widen.

It is interesting to note from the record that there

have been various periods in the past when the yield basis of the Dow industrial average was around 3% and yet the Dow average itself considerably below 225. Such was the case from June 1933 to June 1934 with the Dow average around 112, and from June 1935 to October 1936 with the Dow working towards 158. The other extreme occurred in September 1929 when the Dow reached its all-time top of 381 while the yield basis was 3.30%. Of course fairly good reasons can be cited to explain these situations. In the first mentioned period, the yield basis reflected the then prevailing modest dividend payments while the Dow industrial average, representing a market looking ahead, already had begun to discount in some measure the then impending improvement in business.

In the 1935-36 period, the yield narrowed further as the bull market got under way. Also, in both periods, the New Deal's easy money policy had begun to have its effect. In 1929, on the other hand, no such considerations entered the picture. Money rates were abnormally high, yet the Dow stock yield basis contracted to 3.30% as reckless speculation pushed stock prices to totally unwarranted levels. If anything, this merely goes to show that in a tug-of-war between market psychology and money factors, the odds are on psychology to prove frequently the more potent.

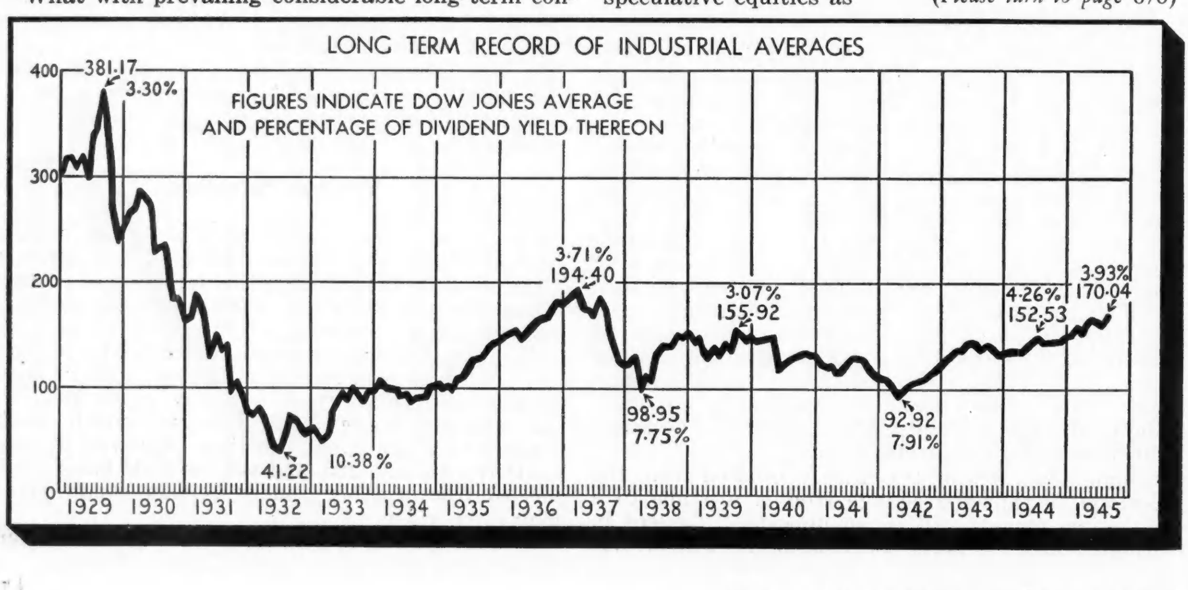
Money Factors

However, especially in the present situation, the money factor must not be under-rated. Bond yields are at all-time lows and likely to stay there for a considerable period ahead. Preferred stock yields, as previously cited, have dropped to something like 3.65% for the best grades and many investment type common stocks yield less. Simultaneously, there is a huge amount of investible funds waiting for employment and, presumably, reconciled to the fact that such employment can hardly bring a better return than currently afforded. Thus all along the line, pressure will be towards lower return unless offset by rising profits and dividends.

What with prevailing considerable long-term confidence in the market outlook, it is conceivable that stock yields may further shrink if and when the market resumes the further discounting of postwar boom prospects without—for the moment—accompanying offsets in terms of rising dividends. Whether the resultant ratios of market valuation will continue even should dividends subsequently rise is another question. Presumably, investment pressure and general money market conditions will then be important factors though by no means the sole determinants of market action.

It is a matter of record that stock yields have always narrowed in advancing markets and widened in falling markets, as evident from the accompanying chart. Yields have ranged all the way from a high of 10.38% in July 1932, at the bottom of the bear market, to a low of 2.68% in March 1936. If the postwar should bring about a sweeping price adjustment placing the market on a 3% yield basis with a corresponding rise in the Dow industrial average, it would presuppose above all the kind of market psychology — and business psychology — characteristic of boom times. Should any doubts pervade the outlook, it may not come to pass, or less drastically so, and the yield ceiling may level off above 3%. In other words, there can be nothing automatic in such a process. Any even mildly deflationary aspect in our economy may well put a stop to the trend; any impairment of confidence on whatever grounds would have the same effect. But when everything is said, it would seem that earnings and dividends will continue as overriding factors determining the extent of market advance, and stock yields.

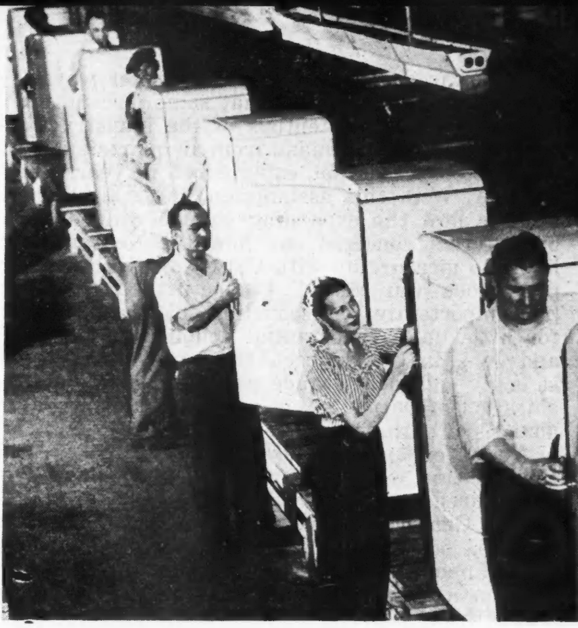
Presumably there is a limit as to the low yields which the investor in common stocks is willing to accept. If that limit is reached, as it has been reached in the case of a good many investment grade equities, he will turn to the more speculative varieties affording a better return. This very process has been going on for some time. Over the past years, we have witnessed considerable switching first from bonds into preferreds, then from the latter into equities, and from high-grade equities into speculative equities as (*Please turn to page 676*)



ELECTRIC APPLIANCES

Get Green Light

BY H. S. COFFIN



WITH all production controls in the discard, makers of electrical equipment are in a wild race to expand civilian output to profitable levels and chances are that it will not take long to reach the goal. Small wonder that the contest is keen as, once over the hurdle of transitional expense, the outlook for several years holds broad potentials for a level of prosperity well above prewar, provided that individual concerns have the stamina to meet conditions in a highly competitive field.

Early Reconversion

Since VE-Day, the electrical equipment industry, with limited quotas at its disposal and with raw materials in scant supply, has been creeping back into regular line output, girding itself for all-out invasion of the receptive markets near at hand, and promising an expectant public that come Christmas, a first dribble of many lines would appear upon the floors of appliance dealers. But as matters now look, within weeks rather than months many such items will become available and early next year, some concerns expect volume to reach prewar proportions even for refrigerators, the slowest of all products in the industry to get into production. It appears likely that the shock of transition will be spent sooner than had been thought possible a few months ago, with corresponding benefit to the long list of concerns forced to operate during the transitional interim with costs wholly disproportionate to abnormally low volume. Fortunately, most equipment makers were well prepared financially to absorb a temporary decline in earnings as well as to provide ample funds for postwar requirements. Dividend distributions during transition, accordingly, are likely to continue as usual, although here and there conservatism may temporarily lower payments, as indeed has been evidenced already by the action of one firm, Cutler-Hammer, Inc., which reduced its quarterly dividend from 35 cents to 25 cents.

Latent demand piled up during war years promises to keep the industry busy for several years to come. While volume naturally will suffer a drastic decline from records achieved when military demand was enormous, prospects are strong that sales will level off after the transitional dip at levels considerably above prewar. Until such time as market saturation begins to make itself felt, excess of demand should support the price structure and generally sustain sales for the great number of concerns geared up to exploit this alluring field.

Makers of heavy equipment, relatively few in number, enjoy a strong competitive position and to meet the modernization demands of all kinds of industries, both at home and abroad, as well as the vast expansion needs of the utilities, volume should reach eminently satisfactory figures, with profit margins as usual above average on these specialties. However, the initial tempo may be somewhat slow.

Large Deferred Demand

As for electrical appliances, practically none of which have been made since 1942, statisticians have worked overtime in their efforts to measure the deferred demand. One of the latest surveys shows a pent-up buying potential for over 4 million refrigerators, 3.7 million washing machines, more than 2 million vacuum cleaners and 1.2 million electric ranges, to mention just a few items.

In the longer range view, also, markets for electric equipment should be materially broadened during the next three years as the Rural Electrification Administration makes progress with its $579 million program to furnish additional farms with electric current. Although 77,000 farms were electrified in 1944, over 3 million more remain to be thus serviced, opening a vista of encouraging sales potentials.

Foreign sales of American made equipment of the kind under discussion were relatively unimportant in prewar years, absorbing only about 6% of our national production, but this record may show marked improvement in view of the current disruption of foreign manufacturing facilities, the heavy replacement needs abroad and the worldwide

trend towards modernization now under way.

While caution suggests that some discounting of the glowing sales potentials of the industry would be wise, for a fact demand from all quarters appears certain to exceed that experienced in years before the war. With this assumption, the main point at issue is how the expanding volume will be shared by different concerns and how their earnings are likely to measure up with those enjoyed during the prosperous war period. Competitive factors here bulk importantly, as production efficiency will count for little unless substantial volume can be gained and held. In this respect, the large concerns with strongly entrenched trade positions and wide diversification of output enjoy a decided advantage and chances are that in the longer range view, their share of expanding markets will increase rather than decline when removal of price ceilings eventually opens a free for all battle.

Both General Electric Co. and Westinghouse Electric Co., outstanding leaders in the field, have already announced policies to price forthcoming products on a basis closely comparable to 1942 levels and with the further intention of progressive reductions when and as conditions permit. That they have the resources to carry out such a program while their experienced and far-flung dealer system gets busy on orders is undeniable. As product diversification is so broad with these two giants, lesser lights in the industry have something to think about at the very start of the coming struggle, especially in the fields of household appliances where profit margins are narrower at best than on heavy electrical equipment.

Pricing Complaints

Contrast the foregoing situation with that elsewhere in the industry where one already hears loud complaints from some manufacturers of washing machines and ironers because, so they claim, they cannot operate profitably under the recent OPA ruling granting them a 5.2% price increase over 1941 levels, and with retail prices to be maintained as of 1942. Since cost factors vary with individual manufacturers, this may well lead to a more liberal pricing policy, for Washington has no intention of squeezing small producers too hard. But in any event, the dispute furnishes a "straw in the wind" that the postwar path is not going to be altogether smooth for certain components in the industry.

The postwar competitive picture is highlighted by the invasion of the electrical appliance field by an increasing number of newcomers, many of them strong concerns in totally unrelated industries, such as makers of aircraft and automobile accessories. As a result of the broadly marked trend in industry to diversify and the necessity of finding a substitute for military production, numerous concerns seem to find the huge demand for electrical household equipment a "natural" with irresistible appeal. In such cases, early advantages may exist, due to experience in manufacturing durables and because necessarily brand new designs for products will be employed, this adding to customer appeal. In order to get rapidly into production, the old established manufacturers are obliged to use dies and jigs of 1942 vintage or earlier and therefore relatively few really new models will be offered for a year or so to come. But offsetting the advantage mentioned, the newcomers will have to bear extraordinary costs of a promotional character and will have to build up a distribution system from scratch.

With a seller's market in the immediate offing, almost anyone and everybody able to produce electrical appliances for some time should be able to find buyers for his products and were it not for price ceilings, wide profit margins might be the universal rule until the deferred demand became well satisfied. Long before that time arrives, however, the largest manufacturers will be out with their own strictly up-to-date models, and with volume gains warranting a cut in prices. At this point, less firmly established competitors will have to look after their easily won laurels. Much will depend, also, upon when the inevitable saturation point is reached, as well as the general economic trend since volume of the industry will always bear a close relationship to national income and thus rise or sink rapidly during economic swings.

Retail outlets for the industry from now on will not only change somewhat in character but by numerical increase will facilitate distribution of electrical appliances to the public. Drug stores, tobacco shops, sellers of non-durables, and even filling stations, are expected to stock up generously with all sorts of electric devices formerly not featured in their sales programs, and regular distributors will benefit from a trend on the part of public utilities to abandon retail sales, though with no diminution of promotional and educational activities. Consolidated Edison Co. of New York and a number of Southern utilities are leading the way in this trend to confine profit potentials to the sale of current at progressively declining prices. Should this movement spread on a broad scale, retail distribution through the mail order houses, always of considerable proportions, should correspondingly widen.

Near Term Earnings Outlook

During the next few months, a natural dip in net earnings of the industry will undoubtedly occur, as previously mentioned, and the expected subsequent earnings recovery will be conditioned upon the ability of individual managements to overcome the impact of a possible rise in wages, and higher materials and sales costs while prices remain under rigid control of the Government. New techniques in production learned during the war, new machines and a generally more efficient production process should in many cases provide offsets to these adverse factors. Additionally, and perhaps equally important, many concerns in the industry have been heavily in the excess profits tax brackets, and when this tax is removed or eased, profit margins will be just that much broadened. During war years, most concerns piled up considerable working capital and established ample cash reserves to provide for transitional contingencies. Amortization of war facilities at an accelerated rate will no longer, or not much longer, cut into net earnings. All told, ultimate prospects for earnings well above prewar are impressive, and as time goes on are likely to be reflected in more liberal treatment of shareholders.

So diverse are the items coming under the heading of electric appliances and so differing in character are their makers that only brief comments

upon them are possible within limitations of space. Both Westinghouse and General Electric have a clearly indicated impregnable position in the industry and are broadly diversified in all its branches. In the manufacture of heavy equipment their profit margins are wide and the only competition worth mentioning is the relatively minor role played in this field by Allis-Chalmers. Thousands of smaller electrical items are produced by both concerns, providing a broad line for their intensively organized dealers, most of whom have loyally stuck to them during the hard years of war. In spite of enormous tax levies, net earnings of these concerns during war years have not suffered in comparison with relative figures of prewar, and chances that they will improve henceforth are excellent. Odds that these leading concerns will obtain their full share of postwar business and that their cost controls will be skillfully handled, are strongly in their favor. Although investor appraisal of their shares has pushed prices up to a point where yields are low and potentials for near-term appreciation may be limited, from the aspect of postwar longer range prospects they carry decided appeal.

Specialty Competition

Among the smaller and more specialized components of the industry are several with excellent past records and interesting potentials. For example, take Chicago Flexible Shaft, a dividend payer since 1932 and with working capital consistently bolstered from earnings in every year. Production of flexible shaft machines and industrial furnaces has continued all during the war, and from its household appliance division will soon again pour forth its popular Shavemaster, Coffeemaster and Mixmaster along with a broad line of similar devices. While current prices for CFS shares have rather liberally discounted postwar potentials, this fact does not preclude further eventual appreciation.

Master Electric is another concern with a good record, ample finances and bright prospects. Electric motors of every size comprise the major part of its output and its normal industrial customers number nearly 5000. As motors will be in insistent demand for some time to come, postwar volume of this concern should be heavy. Both the price-earnings ratio and the yield on this stock are by no means unattractive and long range appreciation potentials are fairly strong.

A good fundamental position in the industry is enjoyed by McGraw Electric Co., its well known Wafflemaster and Toastmaster being strongly established in civilian favor. Fuses also contribute importantly to volume. Distribution is effected through wholesalers, including both General Electric Supply and Westinghouse Electric Supply. Current yield on the stock is fair and a quite stable earnings record for the past decade is likely to extend into the approaching years.

Long Range Prospects

Eureka Vacuum Cleaner, Maytag Co. and to some extent Servel Inc. are rather more speculative because of their irregular prewar record though Servel in this respect has done rather better than the other two with earnings on the whole fair except for some deficits in the early depression years. It remains to be seen whether the opportunities ahead will enable these companies to establish themselves on a basis promising greater stability of earning power.

In summing up, we hope to have made it clear that in the process of satisfying a vast deferred demand for electrical appliances, many concerns will be able to profit from existing excellent potentials for a limited period. But permanent growth and earning power is likely to lodge more securely with strongly established specialists rather than with newcomers or former marginal concerns. The latter still have to prove themselves.

Position of Leading Electric Appliance Stocks

	In Dollars Per Common Share						Price			
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Earnings Ratio	Div. Yield	1944-5 Price Range	Recent Price
Apex Electric Mfg.	$34.36	$2.06	$3.10	$2.65	$ .46	$1.00	8.4	3.8%	28 -13	26
Black & Decker Mfg.	17.13	2.00	2.23	2.00	.81	2.00	12.0	7.5	29⅛-16½	26¾
Chicago Flexible Shaft (a)	13.02	2.41	2.17	1.90	1.51	1.40	18.6	3.4	40¾-32¾	40½
Cutler-Hammer	14.86	1.21	2.66	2.25	.84	1.50	10.0	5.6	30⅝-21⅛	26¾
Eureka Vacuum	10.44	def .41	1.21Jl	1.05Jl	.30	.50	12.0	3.4	15⅞- 6⅝	14½
General Electric	12.17	1.53	1.76	1.60	1.55	1.40	26.1	3.0	46 -35	46
Master Electric	15.85	2.53	2.87	2.20	1.47	1.40	11.0	4.4	32½-25¼	31¾
Maytag	.38	.44	.25	deficit	.25	Nil	49.5	......	13¼- 4½	12⅜
McGraw Electric	10.30	2.35	1.88	1.50	1.37	1.50	18.4	4.3	39 -27	34¾
Servel	8.16	1.85	.96	.60	1.23	1.00	22.4	4.6	24⅜-16¼	21½
Square D	18.40	2.60	4.36	3.75	1.68	2.00	9.7	4.7	45¼-33¼	42¼
Singer Mfg.	213.26	11.67	15.44	15.00	12.75	12.00	21.3	3.6	370 -229	330
Sylvania Electric Prod.	19.27	1.63(c)	2.04	1.75	1.15(c)	1.25	17.1	3.5	36⅛-26¾	35
Westinghouse Electric (b)	21.10	1.46	2.06	1.75	1.09	1.00	17.0	2.8	37⅞-31⅛	35
Weston Elec. Inst.	25.57	1.86	3.18	2.75	.84	2.00	9.9	6.2	36¼-29¾	32¼
White Sewing Machine	5.47	.31(f)	.47	.40	Nil	Nil	32.1	......	16¾- 5	15⅛

(a)—All figures adjusted to reflect 3-for-1 split July, 1944.
(c)—Adjusted to reflect 3-for-1 split in 1941.
(f)—Based on 1939 year end capitalization.
(b)—All figures adjusted to reflect 4-for-1 split May, 1945.
Jl—Fiscal year ended July 31.

POSTWAR OUTLOOK FOR CONTINENTAL CAN

BY RICHARD COLSTON

FOUNDED in 1905, Continental Can has grown steadily through the years until it is now a sprawling and well vidersified enterprise operating 68 plants and employing 26,000 people throughout the United States, Canada and Cuba. In the process, the company, second largest producer of metal containers, has constantly improved its trade position. This is aptly reflected in the sales record. During the 1936-44 period, sales gained fully 92% while those of its leading competitor, rose only 33%.

Until the war, the company was generally and primarily known as a manufacturer of metal cans but beginning in 1941 it undertook a major program of expansion into other fields with the result that today, Continental is also one of the leading manufacturers of fibre and paper containers, of plastic products, steel containers and household ware. Extensive plant modernization and expansion is markedly bolstering the company's longer range earnings prospects while added lines are strengthening the already sound trade position.

Wide Decentralization

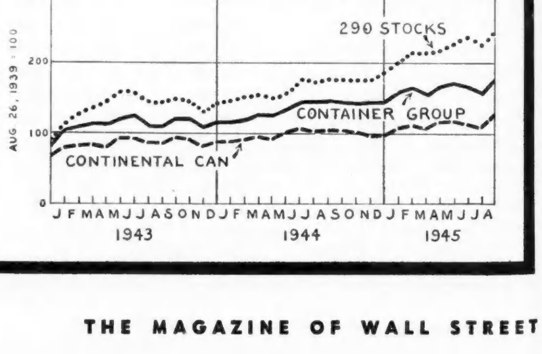
The company's principal activity, can making operations, are necessarily widely decentralized, due to the decentralized nature of the canning industry itself. Thus Continental operates 39 metal can-making plants located in 32 different cities of the U. S. with the result that there is not an important food processing or general manufacturing section of the country that does not have a Continental plant within a few hundred miles shipping distance. Some idea of the billions of containers manufactured by the company each year can be gained from the fact that one plant alone can turn out over 10,000,000 cans a day. Food packers take about 60% of total output, with the remainder consisting of general line cans. Of the latter more than 500 sizes and styles have been developed for scores of products, ranging from aspirin boxes to five-gallon oil cans.

Continental's expansion into the paper and fibre container field began in 1928 but it was not until 1942, that the company began to emerge as a major factor in the non-metallic packaging field through acquisition of various new interests. Later, in 1944, the Keystone Drum Company was acquired and in the same year, Continental bought the Mono Service Company of Newark, pioneers in the development of conical shaped liquid-tight paper food containers. The paper division now comprises ten plants (one in Canada). In addition, this division supervises container manufacturing departments in several can-making plants.

In January 1944, substantially all the stock of Bond Mfg. Co. of Wilmington was purchased, giving Continental the second largest position in the crown industry and enabling it to manufacture its own cork requirements. The acquisition not only added important fabricating plants and equipment but also established foreign connections which assure an adequate supply of raw materials.

The most recent expansion has been into the plastics field, through acquisition of the plastics division of Reynolds Spring Co. with a Cambridge, Ohio, plant, one of the largest and best equipped installations producing molded plastics. It supplies finished products to the automotive, radio, refrigerator, electrical, household appliance and allied industries.

Foreign interests include a Cuban subsidiary operating two can manufacturing plants in Havana; it



also manufactures crown caps. In 1936, Continental Can Company expanded into Canada and organized the Continental Can Company of Canada, Ltd. which now operates four metal can-making plants and a paper container plant. Organized as a subsidiary in 1944, the Continental Overseas Corporation represents the company and its subsidiaries in overseas matters (with the exception of Canada and Cuba) including the licensing of foreign can makers as to methods, processes, patents and general knowledge in metal container manufacturing. Such licensing covers a very considerable part of the world and although mutual benefits derived therefrom were in some instances interrupted by the war, Continental's relationships with associated companies abroad are expected to be broadened in the postwar period.

Extensive Research

Research had an important part in Continental's progress; today extensive laboratories in Chicago are staffed by well over 200 persons dealing with all phases of container development and constantly searching for new container materials and for new products to package. Supplementing such research are ten field offices which serve as clearing houses for technical information needed by customers.

Altogether, of the 68 plants operated, 44 produce metal cans, eleven make paper containers, two manufacture plastic products, three make crown caps and six plants manufacture equipment and can sealing machinery. In 1944, sales were accounted for as follows: Metal cans and containers 81% of the aggregate; paper containers 7.5%; caps, seals and sealing machinery 9%; plastics 2.5%. Naturally, due to the rapid expansion in 1944, this proportion may change this year just as total sales are bound to reflect more fully the acquisition of additional facilities.

However, Continental's expansion appears by no means completed. Obviously the present management believes in a policy of diversification of products and it appears likely that new interests will be acquired from time to time in furtherance of this program. To strengthen working capital, the company early this year offered $15 million new $3.75 preferred stock. The known postwar plant program includes expenditures of about $7 million for plant construction in this country, $1.2 million for a Cuban installation, $1.5 million for new warehouse facilities and $2.5 million for additional machinery. Funds have also been provided for completion of a $1.6 million plant in Canada, and some $7 million for installation of fully automatic production lines in certain plants to further decrease labor and operating costs.

In Continental's case, diversification can be achieved in two ways; not only as to products manufactured but also as to client industries served. Thus while the greater part of container output goes to food packers, there is a constant effort towards widening outlets already including such diverse industries as makers of petroleum products, paints, varnishes, lard, beer, drugs and many others. It is in this particular endeavor, where research pays off, especially in the postwar when new types of containers, and mounting competition between old ones as well as with old ones, are bound to introduce a certain element of confusion. It takes an alert management to meet this situation and Continental gives every evidence of preparedness to cope with changing methods and markets.

Continental's rapid expansion is indicated by the growth of assets from $130 million in 1940 to nearly $160 million in 1944. Acquisitions have been financed with retained earnings as well as the proceeds of several security issues. The past dividend record has been liberal, despite occasional heavy capital outlays, common dividend payments having been interrupted in only one year, 1922. However, disbursements dropped from the somewhat over-generous $3 rate in 1937 to $2 during 1938-41 and $1 subsequently.

Earnings Record

The earnings record has been somewhat irregular. Earnings dropped from $3.35 in 1929 to $1.85 in 1932 (both figures adjusted for the 50% stock dividend of 1934). During 1936-7, earnings almost recovered to the 1929 level but then dropped again, averaging about $2.50 during 1938-41. In 1942-43 there was a further decline to $1.80, but 1944 showed $2.12; there were charges for contingency reserves of 28 cents in 1942 and 35 cents in 1944.

In the late 1930's, the can companies were hurt by the Robinson-Patman Act of 1936. This limited trade discounts on a quantity basis to the extent of the savings involved, thus favoring the smaller buyer. It affected Continental Can rather unfavorably. While the increase in gross sales gradually overcame this handicap, early wartime conditions imposed another. The can companies generally suffered in 1942-43 (Continental sales being lower in

Pertinent Statistical Data

	1939	1940	1941	1942	1943	1944
Sales ($ mill.)	$92.196	$101.039	$136.652	$123.119	$125.613	$174.337
Depreciation ($ mill.)	3.545	3.623	3.672	3.849	3.895	4.679
Balance for common ($ mill.)	7.735	8.053	7.469	5.053	5.170	6.045
Operating margin	10.64%	9.79%	8.86%	9.90%	7.96%	9.52%
Net profit margin	9.37%	7.41%	5.46%	4.10%	4.12%	3.47%
% earned on invested capital*	9.19%	10.68%	10.85%	10.54%	7.82%	13.10%
Earned on common, per share	$2.71	$2.82	$2.62	$1.77	$1.81	$2.12
Earned on common, % of market price†	5.7%	6.0%	5.5%	3.7%	3.8%	4.5%
Dividend rate	$2.00	$2.00	$2.00	$1.25	$1.00	$1.00
Dividend yield†	4.2%	4.2%	4.2%	2.5%	2.1%	2.1%
Current asset value per share**	$15.05	$8.49	$17.18	$15.84	$16.55	$16.58
Book value per share	33.68	33.81	34.42	34.94	35.46	34.40
Net current asset value per share**	12.94	5.55	11.52	11.75	12.70	9.26
Cash asset value per share	4.31	3.56	2.79	4.98	9.51	5.11
Current ratio	10.5	7.7	3.9	5.6	7.5	3.9

*—Before provision for income taxes. †—Current market price (47) is used in all years.
**—After prior obligations.

both years than in 1941) due to restrictions on general line can production. The Government wanted to conserve tin and while its use in cans dropped to 1% of the can weight, available sheet steel was also reduced. With the easing of controls in 1944, Continental's sales jumped nearly 40% and another substantial increase in 1945 is indicated by the sales gains thus far divulged.

Competition in the Thirties

Another reason for the fluctuating earnings during the late 1930's was the heavy competition in the industry, when Crown Cork and Owens Illinois sought a bigger position in the industry with resultant price cutting. This situation has now been eased and Owens Illinois Can Company has been absorbed by Continental. There was also considerable competition on milk can prices from Borden Company, which entered this field to serve itself and other milk companies, but prices were advanced during the war due to heavy overseas shipments.

Reports for the individual quarters are not released but would probably make a still more impressive showing than the 12 months' figures, especially in view of the big increase in sales volume early this year.

Continental Can has a strong financial position despite the liberal expenditures for expansion purposes. The net current ratio at the end of 1944 was nearly 4 to 1 and cash assets were equivalent to about 70% of current liabilities. The senior capital, consisting of $35,000,000 3s due 1965 and $15,000,000 $3.75 preferred stock, is reasonable in amount in relation to the stated assets of some $160,000,000, though it suffices to give the common stock moderate leverage.

Like other users of tin, Continental Can has been hit by the wartime shortage of this commodity, largely produced in the Orient. However, reduction of the amount of tin in each can, government salvage operations and other conservation methods have helped to maintain output. At the end of 1944 Continental's inventory of raw material was $23,000,000, only slightly lower than at the time of Pearl Harbor.

Despite the abnormal use of tin cans as food containers during the war, demand seems likely to continue heavy for some time because of continuing needs for the armed forces and increased exports. Also, domestic demand generally should take a spurt. Grocers and housewives will want to restock their shelves, long depleted of certain items. Hence the demand for food cans should taper off only gradually and demand for containers in other fields—oil, paint, beer, etc.—is likely to increase as retail demand gains.

Comparative Balance Sheet Data
CONTINENTAL CAN

($ millions)

	1941	1944	Change
ASSETS			
Cash	7.974	9.467	+1.493
Government securities	....	5.123	+5.123
Receivables, net	20.607	23.193	+2.586
Inventories, net	43.472	44.527	+1.055
Other current assets	....	.017	+.017
TOTAL CURRENT ASSETS	72.053	82.327	+10.274
Plant and equipment	89.495	107.846	+18.351
Less depreciation	27.555	36.994	+9.439
Net property	61.940	70.852	+8.912
Other assets	7.788	6.594	—1.194
TOTAL ASSETS	141.781	159.773	+17.992
LIABILITIES			
Notes payable	6.000	....	—6.000
Accounts payable and accruals	6.354	9.943	+3.589
Reserve for taxes	5.804	10.952	+5.148
Other current liabilities	....	....	....
TOTAL CURRENT LIABILITIES	18.158	20.895	+2.737
Deferred liabilities	.677	.695	+.018
Short term debt	....	....	....
Long term debt	21.000	35.000	+14.000
Reserves	3.702	4.993	+1.291
Capital	57.079	57.079	
Surplus	41.165	41.111	—.054
TOTAL LIABILITIES	141.781	159.773	+17.992
WORKING CAPITAL	53.895	61.432	+7.537
Current Ratio	3.9	3.9	——

Projected Peace-Time Potentials

Unlike many industrial companies, Continental, having been only moderately in special war work, has a relatively small reconversion problem and can readily push its peacetime sales to new high levels. The following figures are seen as a possibility: Metal containers $150,000,000; paper containers $30,000,000; crown caps $15,000,000; plastics $10,000,000 and can-making machinery $5,000,000—a total of $210,000,000 compared with last year's $160,000,000.

Assuming that the company could return to the high profit margin it enjoyed in 1940, this would give it an operating income (from the above sales) of $31,500,000 or nearly double the 1944 figure. After allowing for miscellaneous income, interest, Federal taxes at 40%, and preferred dividend requirements, common stock earnings on this estimated basis would amount to some $6 a share, compared with the recent figure of $2.62 and estimate calendar year earnings for 1945 of $3.

This projection of potential postwar sales and earnings can of course hardly apply to the more immediate future; rather it shows up the longer range potentialities resting in the strong trend toward expansion and growth, and under generally favorable economic conditions.

These prospects have found market reflection as far as the company's common stock is concerned which in the recent past has experienced particularly wide percentage gains, rising from the year's low of 37½ to around 49. However, and typical of the container group as a whole, it is still far below the 1936 top of 87¼, selling currently around 48½. At this price, the stock returns a yield of only 2%, based on the modest $1 dividend; a yearend extra payment would seem a logical expectation, raising the yield accordingly.

Based on an estimated $3 current earnings rate, per share, the stock sells at about 16 times earnings which compares favorably with many of the high-grade industrial issues. For those content with a low current return and willing to hold for long-term appreciation, Continental common would seem to have interesting possibilities.

In 1945 earnings are showing a sharp recovery, and for the 12 months ended June 30, amounted to $2.62 a share compared (*Please turn to page* 679)

The Status of Foreign Dollar Bonds

— $4.7 BILLIONS OUTSTANDING, 50% IN DEFAULT

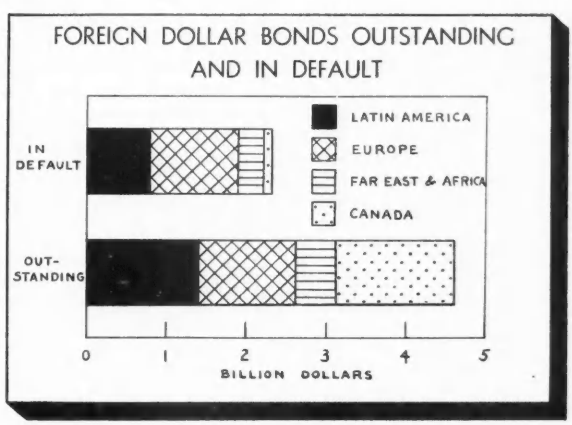
BY J. S. WILLIAMS

THE fundamental theory long ingrained in investors that tax supported bonds more closely approach a riskless status, still holds good for our own governmental, state and municipal issue, but with foreign dollar bonds of 34 nations currently in default as to principal, interest or sinking fund provisions, new yardsticks of appraisal have become essential. Fact is that most of these tainted issues were privately financed, and while Washington has been alert to lend every degree of assistance possible, the big job of straightening out the muddle had to be transferred from the shoulders of Government to a civilian organization, Foreign Bondholders Protective Association, Inc. Since 1933, this remarkably efficient group has been making steady headway in its efforts although with the outbreak of World War II, its task was immensely complicated by a new flood of defaults, thus giving special significance to the Association's latest report as of December 31, 1944.

During the decade after World War I, nearly $9 billion of foreign dollar bonds, direct and guaranteed, were issued and in due course about $2.2 billion were retired. The report of the Committee estimates that as of December 31, 1944, $4.7 billion of $6.8 billion outstanding before the war were in some state of default, or approximately 49½% of all dollar bonds outstanding as of that date, compared with about 43% early in 1941, the increase reflecting the effects of the war in Europe and in the Far East. Full service as to both interest and sinking funds was still paid on 44% of Far Eastern and African dollar bonds, on 95% of Canadian issues, 37% of Latin-Americans and 13% of European dollar bonds (with 8% more paying interest but no sinking fund). The mere fact that all these bonds, both in good and bad standing, are payable in dollars and were financed mainly by American bankers, does not signify that their ownership is confined to United States citizens, as title to substantial amounts is held by foreigners.

The status of bonds in complete or partial default varies widely in different areas of the world as well as with different countries, so that a brief review is essential in appraising their potentials. In the case of Canada, for instance, with $1.5 billion of dollar bonds outstanding, full service has continued to be paid on all direct and guaranteed issues of the Dominion as well as of all the Provinces except Alberta, and of all cities but two where readjustments are pending. Although the Province of Alberta has offered to compromise by halving the interest rate, the Act providing for the terms was declared unconstitutional and the situation is still drifting. The cities of St. Boniface and Weyburn in Canada have made legal offers to compromise their debts but unfortunately require both a loss in interest and in exchange rates as payment is offered in Canadian money, at a discount of about 10% compared with United States dollars. However, the percentage of Canadian dollar bonds in default is very small in relation to the sizable amount outstanding, the latter being 33.4% of the world total.

While some headway has been made towards readjustment of numerous Latin-American debts incurred by nations and municipalities, of sixteen countries in that area Guatemala was the only one with no dollar bonds in default. Bolivia, Costa Rica, Ecuador, El Salvador and Peru continue in complete default on their dollar bonds. Argentina has consistently paid full service on her dollar bonds outstanding in an amount of $129 million, but some $771,000 of provincial issues remain in arrears as to either sinking fund or interest. Cuba, Dominican Republic, Panama and Uruguay are making full payment under radical readjustment or conversion offers, but where these have not proven satisfactory to bondholders, original contractual agreements appear to have little strength. Chile and Brazil, too, have offered to compromise on their dollar bonds but on terms occasioning a serious loss to holders. Chile is paying interest at a reduced rate in cases where the terms have been accepted but the sinking funds are being administered casually. The terms offered by Brazil were even more onerous than those suggested in the depression depths of the early 1930s but full service is maintained wherever bondholders have consented to the readjustment. Colombia and Mexico have offered readjustments on their national dollar bonds but nothing has been done to liquidate substantial debts incurred by their provinces and important municipalities.



Of the $1.4 billion dollar bonds issued by the sixteen Latin-American countries mentioned, representing 29.2% of the grand total, only $978,000 issued by Guatemala have a wholly clean record. Judged by American standards of credit, this situation is inexplicable, especially as most of the countries in the Southern Hemisphere have sold to the United States immense quantities of goods and raw materials during the war and their dollar balances are estimated as close to $2 billion. Political expediency, however, appears to dictate that these accumulated funds be used exclusively for the purchase of American goods during postwar, rather than to mend various battered national credits.

Worst part of it is that no steps other than continued and very difficult moral persuasion can effect even compromises as time goes on, and in this special group of countries both desire and will seem to be lacking to clean up the situation. While, statistically, the outlook for some of the defaulted issues holds more promise than their currently deflated prices would indicate, past records must always impart a rank speculative tinge to most of them, even where new promises are currently fulfilled.

Exceptions to the rule, of course, are always to be expected; Cuban credit remains fairly high and practically all of its national bond issues are selling well above par, whereas Chile 6% bonds due 1960, in default since 1931, are quoted below 20.

How serious has been the impact of war upon European countries is brought home by the fact that of twenty countries in that area having a total of $1.2 billion dollar bonds outstanding, or 26.3% of the grand total, Finland, France and Ireland were the only ones at the beginning of this year paying full service on all issues. Full interest was paid by Norway and Denmark, but sinking fund defaults occurred on State and City issues of Norway, and the Danes failed to meet both sinking fund and maturity requirements. Certain numbered bonds issued by Belgium received full service but municipal bonds were in complete default. Some European countries made partial payments on their dollar bonds before they were occupied by the Germans, but subsequently lapsed completely into default.

These nations include Austria, Czechoslovakia, Danzig, Estonia, Greece, Hungary, Lithuania, Poland and Yugoslavia. For a long time past, defaults have been the rule by Russia, Germany, Italy, Roumania and Bulgaria. Arrears on Russian bonds apply to issues originating with the Czarist regime many years ago, for which the present Government refuses to accept the slightest responsibility. Due to the chaotic political and economic status of Europe, it is impossible to predict when or how many of the countries can resume service on their defaulted bonds or attempt to readjust their debts. A high standard of credit morality, however, promises well for eventual clearance of foreign obligations by such countries as Belgium, Denmark and Norway, but far less hopeful are the prospects of the other impoverished nations. On December 12, 1941 all trading in the securities of Axis countries and their satellites was suspended on the New York Stock Exchange, and will not be restored until the Government has had time to appraise fully the entire situation abroad and can release all issues at the same date.

In Africa and the Far East, Liberia by agreement has served its bonds at a reduced rate, and Australia has maintained full service without interruption on all its dollar obligations. China completely defaulted on $444,000 dollar bonds outstanding, and Japan upon $16.8 million, of which $6 million represented corporate issues guaranteed by the State.

Broadly viewed, the total amount of dollar bonds outstanding is concentrated in Canada, South America, Europe and the Far East, 55% of them being obligations of national governments and only 60% of these in default. On all issues totaling $4.7 billion it is estimated that full service, including interest and a modest 2% sinking fund, could be met by an annual outlay of about $95 million each by Canada, Latin-America and Europe, and of $39 million by the combined countries in the Far East and Africa. Simple on its face as the problem thus appears, manifold complexities of a political and economic nature seriously cloud the picture.

Foreign Dollar Bonds Outstanding and In Default

	Total Outstanding	Total In Default*
Argentina	$190,682,690	$ 913,090
Bolivia	60,575,698	60,575,698
Brazil	239,895,475	127,024,745
Chile	157,034,000	157,034,000
Colombia	139,604,653	96,783,500
Costa Rica	8,090,688	8,090,688
Cuba	100,787,300	16,374,600(a)
Dominican Republic	12,612,500	4,373,500
Ecuador	12,262,700	12,262,700
El Salvador	9,196,525	9,196,525
Guatemala	978,000	....
Haiti	7,396,315	7,396,315
Mexico	273,113,653	273,113,653
Panama	15,790,449	1,356,302
Peru	85,656,500	85,656,500
Uruguay	50,469,929	1,833,500
Austria	30,375,100	30,375,100
Belgium	31,511,800	9,544,000
Bulgaria	16,634,500	16,634,500
Czechoslovakia	4,286,800	4,286,800
Danzig	4,367,885	4,367,885
Denmark	121,862,500	92,862,500
Estonia	3,271,500	3,271,500
Finland	10,695,000	....
France	19,459,100	....
Germany	474,388,400	474,388,400
Greece	36,044,500	36,044,500
Hungary	17,685,600	17,685,600
Ireland	670,500	....
Italy	102,149,400	102,149,400
Lithuania	4,700,694	4,700,694
Norway	86,162,000	12,545,000
Poland	77,661,343	77,661,343
Roumania	70,352,450	70,352,450
Russia	75,000,000	75,000,000
Yugoslavia	38,481,637	38,481,637
Australia	228,567,000	....
China	10,714,498	10,714,498(b)
Japan	279,203,200	279,203,200
Liberia	1,114,000	....
Canada	1,555,561,735	82,951,811
Grand Total	$4,665,068,217	$2,305,206,134

*—Covers defaults as to interest and/or sinking fund, and includes scrip and funding bonds.

(a)—15,991,600 in default on s. f. only, and 511,000 in default on interest and s. f.

(b)—Includes non-interest script of 1,044,798.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: Bond dealings have continued at the slowest pace in five years, due largely to the small number of trading days. The turnover for August was the smallest since August, 1940. In the foreign section, German, Chinese and Japanese issues gained. The latter issues were particularly strong after the signing of the peace pact.

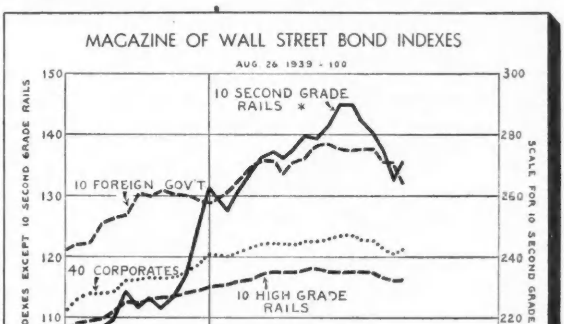
When the Southern Pacific refunding plan has been accomplished it will have cut the debt of its system since the start of 1940 by 30.2%. Present fixed charges are below the level of the system's earnings even in the lowest year of the depression. An additional interest saving is expected from the pending refunding.

The Magazine of Wall Street bond indexes show the following changes on dates set forth in the appended table.

	On Aug. 18	On Sept. 1	Net Change
Forty corporate bonds......	120.6	121.2	+ .6
Ten high grade rails........	116.2	116.3	+ .1
Ten second grade rails......	265.0	271.1	+6.1
Ten high grade utilities.....	98.3	98.9	+ .6
Ten high grade industrials...	105.3	105.5	+ .2
Ten foreign government issues	135.2	132.0	—3.2

AMERICAN THREAD CO.: The company's 5% cumulative preferred stock, par value $5, has preference as to assets and accumulated dividends of 25 cents per share per annum, payable in New York. The stock is non-callable and has no voting power. Dividends have been paid continuously on this preferred stock since the company was incorporated for 48 years. The majority of the common stock, representing the sole voting power, is owned by the English Sewing Cotton Co., Ltd.

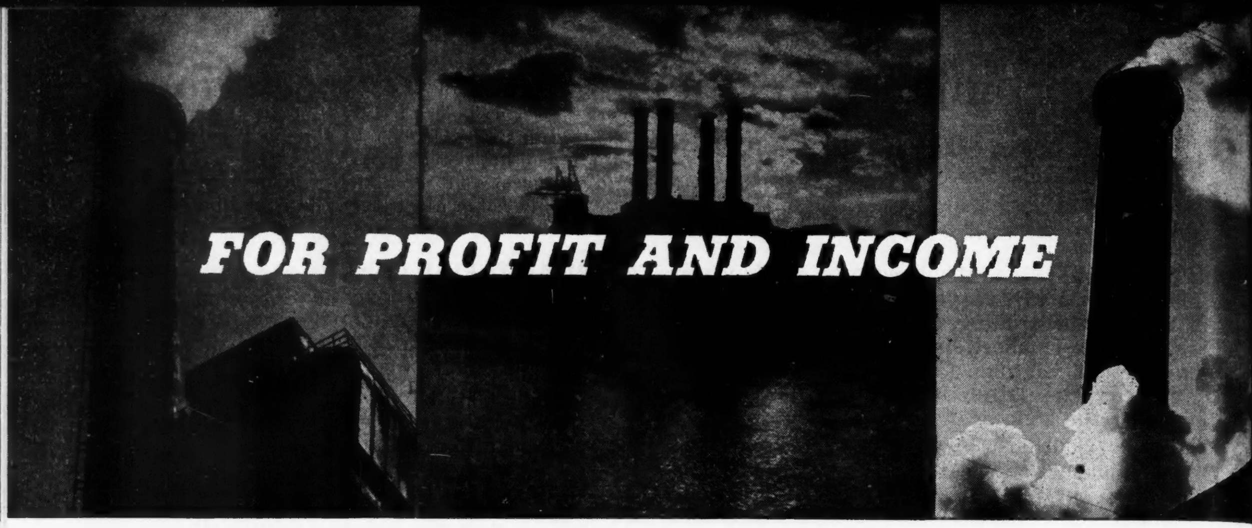
As of December 30, 1944, the company showed a very strong financial position, with total current assets of $11,184,207 as compared with total current liabilities of only $1,882,113, a ratio of about 6 to 1. Land, buildings, equipment and timberlands after a large depreciation reserve were carried at $9,156,274. The company has no funded debt and at the end of 1944, net current assets amounted to $9,302,094 or nearly twice the amount of the preferred stock outstanding. The stock is traded in on the New York Curb Exchange and has had a price range this year of: High 5; low $4\frac{1}{8}$; last $4\frac{7}{8}$ to yield slightly over 5%. In view of its long dividend record and the fact that it is well covered by net current assets alone, this non-callable preferred stock is attractive for income. Dividends are paid semi-annually.



STANDARD OIL COMPANY OF NEW JERSEY has borrowed $50,000,000 at $1\frac{3}{4}$ per cent from a group of New York City Banks to provide funds for the redemption on September 1st, this year, of its $50,000,000 $2\frac{3}{4}$% debentures due July 1, 1953.

SCHENLEY DISTILLERS CORP.: The company will redeem on October 1st, at $105 per share plus accumulated dividend of $1.37½ per share or a total of $106.37½ per share, 20,000 shares of outstanding 140,614 shares of $5\frac{1}{2}$% cumulative $100 par value preferred stock.

WILSON & CO., INC.: Directors of this company have approved a plan of recapitalization of the company's 274,085 outstanding shares of $6 preferred stock. A special meeting will be held in September to consider an amendment of the company's charter to provide for a new issue of preferred stock, consisting of 250,000 shares, without par value. August 14th was fixed as the record date for the determination of stockholders entitled to notice of and to vote at the special meeting. The dividend rate and the redemption price for the new preferred stock will be determined at a later date.



FOR PROFIT AND INCOME

Once More

In the June 9 issue it was noted here that the Dow industrial average in 41 out of the previous 48 years had reached levels in July or August higher than the closing level of May; and that this "summer rise," though sometimes by a small margin, had occurred without exception in each of the preceding 14 years. Well, chalk up another year, which makes it 15 in a row and 42 out of the last 49. The August 31 close was a new bull market high, over 4 points above the previous high recorded on May 29. We didn't say anything about the rail average, and a good thing we didn't. The seasonal precedent there was preponderantly bullish too, but it was honored in the breech. The June 25 high still stands unchallenged. On the record of nearly half a century, September is not so good. Both the industrial and rail averages have declined more often than not in this month. The trouble with this "seasonal habit" approach to the market is: (1) It doesn't always work; and (2) lots of individual stocks go their own way, regardless of the averages.

Stock Selection

When asked to stop talking generalities and name stocks, many a bull suddenly gets more conservative. Most of the stocks one would like to have (at lower prices) are well-advanced even from the lows of this year. It is sobering to look at those figures and then try to relate them to guess-projections of share earnings of the next year or two. However, this rash department will herewith name some names. Assuming the bull market will go considerably further eventually, the following stocks do not look over-priced on potential earnings: Chrysler, General Motors, Celanese, Industrial Rayon, Electric Auto-Lite, United Drug, Byron Jackson, Marshall Field, Paramount, Federated Department Stores, American Locomotive, Butler Brothers, Howe Sound, Revere Copper & Brass, American Tobacco, Firestone Tire, Bond Stores, Bulova Watch, Motor Products, Columbia Broadcasting and CIT Financial. Most of these have previously been cited favorably in these pages, or elsewhere in this publication, after careful study. They are not "pulled out of the hat" for present purposes. And the list, of course, is not inclusive. There are others.

We Disagree

Maybe we are hopelessly old-fashioned, but in this department we prefer stocks which have substantial per share earnings, present or prospective. We can't enthuse about stocks of companies with so many shares outstanding that earnings are always in pennies per share—especially if said earnings have shown no appreciable long-term growth, if any. Nevertheless, speculation by people unaware of, or indifferent to, the prosaic facts of security analysis, can put such stocks up. Two recent examples were new bull market highs in American Radiator and Radio Corporation. These "low price" stocks are actually on a Blue Chip basis in price-earnings ratios. Relative to current share earnings, best pre-war earnings and probable annual earnings of the next several years, they appear among the dearest, rather than the cheapest, equities in their respective industries. This is, of course, no

INCREASE IN EARNINGS AS SHOWN IN RECENT REPORTS

		Latest Period	Year Ago
Stokely-Van Camp	Year May 31	$3.48	$2.91
American Locomotive	6 mos. June 30	1.61	1.35
Borden Company	6 mos. June 30	1.39	1.01
Hercules Motor	June 30 quar.	1.24	.92
Westinghouse Electric	12 mos. June 30	1.83	1.76
Atlas Plywood	Year June 30	2.15	1.48
Crown Zellerbach	July 31 quar.	.54	.46
Associated Dry Goods	6 mos. July 28	1.52	.85
Chicago & Northwestern Railway	7 mos. July 31	8.47	7.42
Neisner Bros.	6 mos. June 30	1.50	1.25
Baldwin Rubber	Year June 30	1.57	1.20

criticism of the companies, both very solidly established. It's a criticism of people who buy prices rather than values.

Hosiery Boom?

Stocks of hosiery makers have had quite a play. Of course, there is a big waiting demand for stockings and socks made of something better than rayon or cotton — but, nevertheless, this department would not buy "stocking stocks" with our money, or yours. There is enough capacity to catch up with the accumulated demand within a not great number of months. Moreover, one end-result of the "revolution" in textiles will almost surely be hosiery which will wear much longer than in the past, proportionately cutting into the replacement demand on which the industry is normally dependent. Nylon, in the present stage, points that way. Still better synthetics may come. And Ramie, one of the oldest of the fibre plants—now under promising development in this country — might eventually be the answer to a lady's prayer for the perfect, long-wearing, silk-like stocking. At the least, twice as much wearability as formerly is a good bet.

Retail Stocks

While merchandising stocks have performed well recently, many begin to look a bit "sticky" around, or not so far above, highs made earlier in the year. This is understandable. The average investor seems more inclined to "wait and see" how trade volume holds up as payrolls decline and unemployment increases. So far after the war's end the figures show no slump, though "clearance sales" are again with us here and there. Peacetime operating margins in most cases will be less favorable. There is also some concern over the effects of OPA price ceilings on reconversion goods. Against all of this the fact remains that there can not be the expected "postwar prosperity" without large retailing volume; and that merchandising companies will be among the largest beneficiaries of reduction in, or elimination of, the excess profits tax. Our view is that selected issues are likely to fare at least as well as the composite average, and probably a bit better over a period of time.

Still Selling

At least one Graham-Paige insider was still selling the stock in August, according to the latest SEC reports. Evidently we are not the only ones who suspect it's a generously priced gamble. We also hear via our grapevine that General Motors and Chrysler are decidedly confident of being able to hold their own against the newcomers and also-rans. What's become of the automobiles, on paper, that some of the aircraft companies were supposed to be thinking about making? Maybe they have discovered what experienced auto men already knew: namely, that it's a very tough game to get into.

Good Yield

If you're an investor wanting a good and safe yield, take a look at First National Stores. Of course, you won't like it if you also demand speculative appeal. Around 50 now, 5 to 10 points appreciation—on a pure yield and money market basis—over a protracted period may well be possible. But current yield is the main attraction. It is just about 5%. In this relatively stable, modest profit-margin business, the company paid the regular $2.50 dividend throughout the Big Depression and under unheard of wartime taxes. That's enough of a test for us. Finances are strong, and virtually all stores are in economically conservative New England, where they don't believe in punitive taxation of chain stores to help inefficient independent merchants. Of all the major chain grocery companies, the operating record of First National over the long term has been the best.

Another One

Speaking of yield, we find it a bit hard to understand why so many investors remain indifferent to Chesapeake & Ohio. Sure, it's a railroad; but there are all kinds of railroads, just like there are all kinds of industrial companies. There are very few of the latter which can match C. & O. for long term dividends and the stability thereof. The lowest dividend paid was $2.50 in 1931-1932. Even that payment would yield not far from 5% on the current price around 52. For the past several years it has been $3 regular plus 50 cents extra. The extra may not be paid this year, though that's not certain. The $3 regular would yield nearly 5.8%. The proposed merger of affiliated roads would eventually add perhaps $1 a share to earning power. The financial position is impregnable, operating efficiency among the highest. Since business is primarily haulage of bituminous coal, truck and air line competition can not be a factor. Finally, the road will be a major beneficiary of repeal of the excess profits tax. The latter alone is enough to point to the probability of a higher, rather than lower, peacetime dividend.

Coming Events

Speaking of C. & O., we shall analyze and discuss in our next issue the C. & O. merger plan recently proposed. Our readers will be interested in this appraisal.

DECLINE IN EARNINGS AS SHOWN IN RECENT REPORTS

		Latest Period	Year Ago
Union Tank Car	6 mos. June 30	$ .95	$1.19
Armstrong Cork	6 mos. June 30	1.26	1.37
Greyhound Corp.	6 mos. June 30	1.52	1.76
Servel, Inc.	9 mos. July 31	.56	.61
Truax-Traer Coal	July 31 quar.	.49	.62
Consolidated Cigar	6 mos. June 30	1.68	1.85
Pressed Steel Car	6 mos. June 30	.84	1.41
Chain Belt	12 mos. July 31	1.65	1.80
New York Central Railroad	7 mos. July 31	2.84	3.40
Food Machinery	9 mos. June 30	4.94	6.32
Kennecott Copper	6 mos. June 30	1.51	1.99

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

American Home Products

I would appreciate some information on American Home Products and its future outlook.

—B. W., Saginaw, Mich.

American Home Products is one of the two largest manufacturers of pharmaceutical, nutritional, and vitamin products, and also has extensive lines of proprietory drugs, household specialties, dentifrices and cosmetics. Company has been expanding its already diversified business by acquiring additional companies.

Gross sales of American Home Products have risen 514 per cent in ten years; net income (after taxes) 198%. Gross sales in 1933 were a little over $17,000,000. They have steadily increased to a new high level in 1944 of $105,090,905. Earnings in 1944 equaled $5.26 a share, compared to $5.16 in the previous year.

Monthly dividends have been paid continuously since the company's founding in 1926. $2.70 a share was paid in dividends in 1944.

Company plans a $15,000,000 plant and laboratory expansion program as soon as war restrictions are lifted. Company relies extensively on research to develop new products and create new markets for existing lines. In 1944 a single research unit was created to correlate the work of its 33 laboratories in the U. S. and Canada.

The outlook for this company continues favorable, both for domestic and foreign business.

Oil Royalties

Oil Royalties have been suggested to me as a good source of income. As I have never had an investment of this kind and know very little about oil royalties, I would appreciate any information you can give me on this subject.

—T. G., St. Petersburg, Fla.

The most common type of oil royalty starts this way. A company prospecting for oil, sees a piece of likely property, enters into a contract with the landowner, whereby the owner is to receive one-eighth of the value of any oil that the company takes from the land. Oil is struck. The landowner then decides to turn some of his royalty into spot cash. Accordingly, he sells part or all of his royalty interest to a wholesaler in oil royalties.

The wholesaler after figuring his costs and profit, breaks the royalty interest up into fractions and these fractions are offered for sale. Anyone who buys a fraction is entitled to his proportionate share of one-eighth interest in the oil that is taken from the land.

Payments are usually made monthly by the company that gets the oil. The value of the royalty depends, of course, on how much oil will be taken from the particular piece of land on which you hold a royalty, and how long the process will take. And that depends on a lot of things. Usually only those with years of experience in the oil industry are competent to judge values. And choice royalties are often placed with local residents, who are fully informed on the particular development.

Most laymen do not realize that the typical uncapped well flows most heavily in the first year or two, then fades off. Most investors do not realize that the first check from a producing royalty may come close to being his biggest check. If his monthly check two years later is as much as one quarter of that first check, he may consider himself lucky. Although there are royalties that have paid out well for a good many years, and some in increasing amounts. Royalty checks are made as long as the oil is being produced. When the well is dry and the last check is in, you can put your royalty away in the dead storage file. If you have not at least received your investment back by this time, you probably never will.

In the past, distributions were more or less tax exempt since the early distributions were considered to be a return of capital while the latest rule is, we believe, that the life of the property must be estimated and the distribution pro-rated on the basis of probable life, charging the balance to income.

Too many people who buy oil royalties overlook the factor of return of capital in figuring results and therefore do not deduct the portion considered as return of capital, which would take much of the glamour from royalties.

A note of caution in investing in oil royalties was sounded recently by a member of the S.E.C. He warns that there are too many oil royalty promotions in which uninformed persons have invested their life savings upon false promises of fantastic and riskless profits.

Keeping Abreast of Industrial and Company Changes

Latest wrinkle in urban transportation is an air-conditioned electric trolley which requires no tracks. Pullman-Standard Car Mfg. Co. is building some of these for the Georgia Power Co. in Atlanta, for experimental purposes.

Emphasis upon research will highlight the postwar program of many concerns to an extent previously considered visionary, for science is continuously on the march.

Most complete laboratory in the paper industry is promised by Kimberly-Clark Corporation. The scientific staff will number 160 and the new facilities will include space occupying 60,000 square feet.

Exigencies of war have given birth to a new American industry. Prewar reliance upon imported chronometers is a thing of the past, as by the use of new spring alloys and bi-metal wheels, our watch industry has improved upon the foreign product.

By the year's end, the Casein Co. of America, subsidiary of the Borden Co., expects to be producing 1 million pounds of formaldehyde monthly in a new plant to be built in Springfield, Oregon.

Loose-Wiles Biscuit Co., too, is expanding, having plans for a new $3 million plant in Kansas City, Kan., to equal production in New York, Dayton, and Oakland, Cal. Incidentally, 1200 workers will be provided with jobs of a permanent nature.

A special meeting has been called for stockholders of Textron, Inc., September 10th next. to consider a two for one split-up in the common shares and to authorize $12,500,000 new convertible preferred.

Burlington Mills has purchased a stock interest in three other concerns, Stark Bros. Ribbon Corporation, General Ribbon Mills, Inc. and Stark Bros. Ribbon Corporation, Ltd., of Canada.

Stockholders of Chicago Mail Order Co. at the next annual meeting will be asked to approve a change in the corporate name to "Aldens Inc.", a title which for some time past has been used extensively in the company's promotional activities.

Thermal efficiency, the ratio of fuel used to horsepower produced, has achieved a new world record in a turbo-charged gas-diesel engine produced by Cooper-Bessemer Corporation, the figure of 40% being far above that of any steam, gas, gasolene, gas turbine or diesel engine produced to date.

Retooling for postwar production, Kalamazoo Stove & Furnace Co. has earmarked $2 million to place its facilities in the most up to date operating condition.

New additions to plants of the Zapon division of Atlas Powder Co. at Stamford, Conn. and North Chicago, Ill., costing several hundred thousand dollars, will double capacity.

Within a few weeks, Minneapolis-Honeywell Regulator Co. will be producing peacetime products at a prewar rate, and by the end of October expects the rate to climb by 30%.

$2.4 million will be spent by Rustless Iron & Steel Co. to improve and enlarge five facilities for production of a wider variety of stainless steel rods and other purposes.

In the new industrial era about to unfold, science has not overlooked the proverbial mousetrap as an aid to fortune. Latest of these gadgets is one equipped with an electric eye and an execution chamber.

Business at wartime peak will continue for at least a year for the battery division of Thomas A. Edison, Inc., as a result of a backlog of civilian orders, both domestic and foreign.

A proposed five to one split-up in the shares of Fedders Manufacturing Co., Inc. will be voted upon by stockholders October 16th.

Christmas trees this winter will shine with new kinds of lights. Multi-colored fluorescent globes are to be produced by Sylvania Electric Products Corp. While they will not be inexpensive, they will last 1000 hours.

Farewell to broken phonograph records. Radio Corporation of America is ready to provide unbreakable ones which can be bent, hammered or thrown across the room without damage.

A controlling interest in Rollins Hosiery Mills, Inc. has been acquired by Munsingwear, Inc. of Minneapolis. Rollins was established 51 years ago and employs about 700 workers.

Expansion by Aireon Manufacturing Co., Kansas City, to the tune of $650,000 will result from the purchase of three Midwest concerns, two of which make radio speakers in Chicago, and the other one oil field supplies in Oklahoma City, thus achieving considerable diversification.

Postwar expansion program of E. G. Budd Mfg. Co. will involve $16 million, of which $6 million will go first for new equipment to meet a mounting flood of orders from the automotive industry.

Marking a major development in the medical field, E. R. Squibb & Sons will build a large new plant at New Brunswick, N. J. for the production of streptomycin, the mold-producing drug.

In spite of $7.5 million military cancellations, H. K. Porter Co., Inc. announce that their backlog of unfilled orders for regular products, including freight cars, locomotives and pumps, totals $20 million.

At a cost of $2.4 million, Nash-Kelvinator Corporation will prepare to boost refrigerator production to 1.1 million units, first step being to transfer all final assembly operations from Detroit to Grand Rapids.

Ground has been broken by Philco Corporation for a new Philadelphia plant which will have the longest continuous radio production lines in the world. The cost of construction will run about $1 million.

A step towards diversification by General Printing Ink Corporation is the purchase of the A. C. Horn Co., makers of paints and varnishes. The buyers plan to manufacture Horn products from expanded facilities in Massachusetts, Illinois and California.

Long patient holders of Guantanamo Sugar Co. 8% preferred stock, with $116 per share of arrears, will get cash in full on October 1, when such stock not exchanged for new securities will be called for redemption at $227 per share.

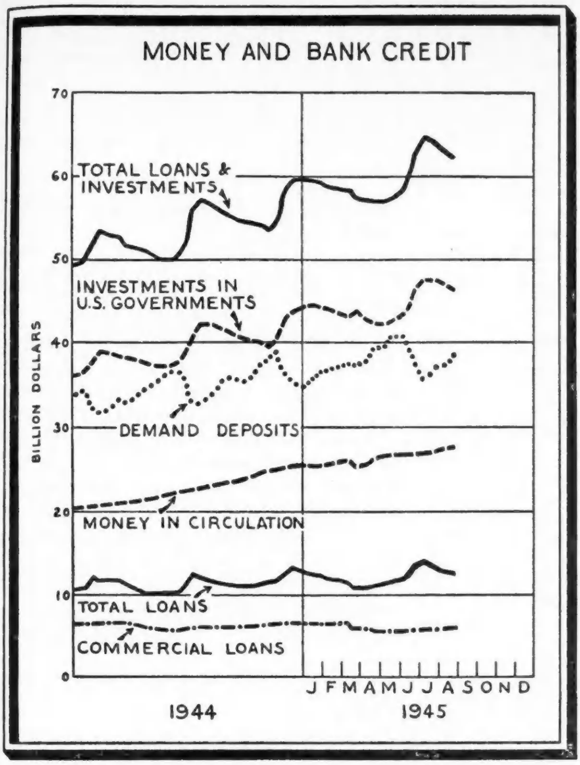
Bond Clothes, Inc. plans to more than double its Rochester, N. Y. plant at a cost of $7 million, incidentally boosting the number of employees from 2000 to 5000.

Expansion on a broad scale is to be undertaken by Grayson Shops, Inc. by establishing 35 large stores in key cities from coast to coast.

At an early date, Proctor & Gamble will commence construction of a $1 million plant at Sandusky, Ohio, to increase its facilities for making soap.

A new cold rolling mill, a new laboratory and related pilot plant equipment for stainless and silicon steel strips, will be built by Allegaheny Ludlum Steel Corporation at a cost of $5 million.

Diversification plans of Bell Aircraft Corporation include conversion of its Burlington, Vt. plant to make tobacco picking and packing machines and hydraulic machinery.



SUMMARY

MONEY AND CREDIT—An $11 billion goal has been set for the "Victory Loan" drive opening Oct. 29 and closing Dec. 8, with $4 billion alloted to individuals.

TRADE — In the post-Victory week ended Aug. 25, department store sales were 6% ahead of last year, against increases of 7% for four weeks and 12% for the year to date.

INDUSTRY—Business Analyst predicts post-war prosperity employing 54 million; with Business Activity reaching 142% of the 1935-9 average; national gross product, $150 billion; national income, $125 billion; and retail store sales, $85 billion annually—on basis of current price level.

COMMODITIES—Futures rally on announcement that Government will continue to support prices; but spot markets a trifle easier. All foods, except sugar, may be ration-free before year-end.

The Business Analyst

In the three weeks ended Sept. 1, which includes "Victory week" ended Aug. 18, this publication's index of **Business Activity**—measuring the physical volume of the National Gross Product—declined about 4.3% to a level slightly more than 2% under the 1943 volume of like date. A considerable portion of this as yet minor recession is attributable to closing of several large steel plants for reconversion.

* *

For the month of August, our index receded to 167.7% of the 1935-9 average, from 171.8 in July—comparing with 170.8 for August, 1944 and 165.4 in the like month of 1943. Eight months' average was 171.9, against 171.3 in the like period last year. On a per capita basis, the August index was 154.8% of the 1935-9 average, compared with 159.5 for July, 160.1 in August, 1944, and 157.3 for the like month of 1943. Eight months' average was 159.4, against 160.8 for the like period last year.

* *

Thus begins the post-war **"Reconversion Recession"** which, before the upturn sets in sometime next year, might carry the nation's physical volume of production, distribution and trade down to somewhere between the 1940 and 1941 levels. Our own guess is that the dip will not

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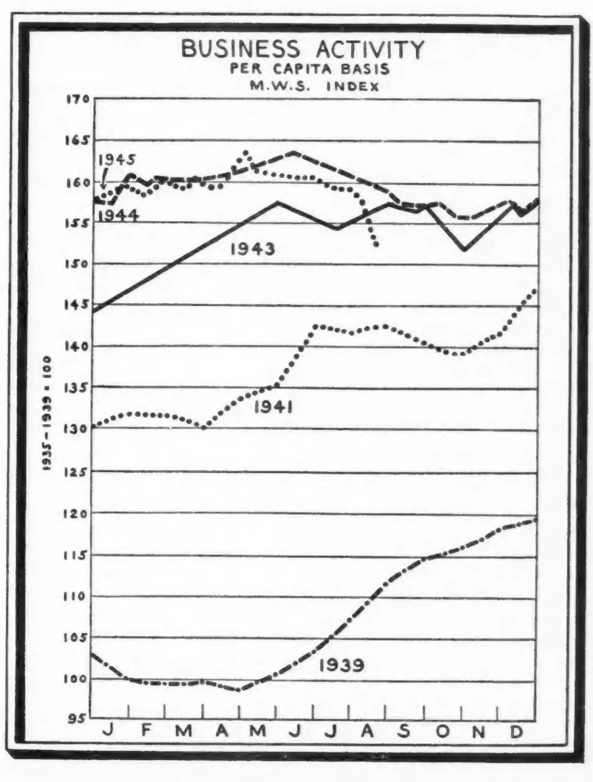


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Aug. 29	1.74	1.37	1.72	0.43
Cumulative from Mid-1940	Aug. 29	304.0	302.3	214.5	14.3
FEDERAL GROSS DEBT—$b	Aug. 29	262.9	262.7	209.6	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Aug. 29	46.4	37.6	35.1	24.3
Currency in Circulation	Aug. 29	27.6	27.5	23.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Aug. 29	6.94	6.85	5.79	3.92
100 Other Cities—$b	Aug. 29	8.02	8.03	7.76	5.57
INCOME PAYMENTS—$b (cd)	June	14.34	12.83	13.57	8.11
Salaries & Wages (cd)	June	9.54	9.52	9.34	5.56
Interest & Dividends (cd)	June	1.85	0.50	1.55	0.55
Farm Marketing Income (ag)	June	1.53	1.45	1.50	1.21
Includ'g Govt. Payments (ag)	June	1.55	1.53	1.56	1.28
CIVILIAN EMPLOYMENT (cb)m	July	52.7	52.1	54.0	50.4
Agricultural Employment (cb)	July	9.1	9.1	9.7	7.7
Employees, Manufacturing (lb)	July	14.1	14.5	16.0	13.6
Employees, Government (lb)	July	5.9	6.0	5.8	4.5
UNEMPLOYMENT (cb) m	July	1.1	1.1	1.0	3.4
FACTORY EMPLOYMENT (lb4)	July	143	148	165	147
Durable Goods	July	185	194	226	175
Non-Durable Goods	July	111	113	118	123
FACTORY PAYROLLS (lb4)	June	299	303	335	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	June	44.6	44.1	45.9	40.3
Hourly Wage (cents)	June	103.9	104.3	101.7	78.1
Weekly Wage ($)	June	46.35	46.01	46.24	31.79
PRICES—Wholesale (lb2)	Aug. 25	105.5	105.5	103.5	92.2
Retail (cdlb)	June	142.1	140.9	137.5	116.1
COST OF LIVING (lb3)	July	129.4	129.0	126.1	110.2
Food	July	141.7	141.1	137.4	113.1
Clothing	July	145.7	145.4	138.3	113.8
Rent	July	108.3	108.3	108.2	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	July	5.71	6.04	5.51	4.72
Durable Goods	July	0.86	0.90	0.85	1.14
Non-Durable Goods	July	4.85	5.14	4.66	3.58
Dep't Store Sales (mrb)	July	0.44	0.53	0.38	0.40
Retail Sales Credit, End Mo. (rb2)	July	2.17	2.27	1.99	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	June	293	293	301	212
Durable Goods	June	414	435	445	265
Non-Durable Goods	June	215	203	208	178
Shipments (cd3)—Total	June	268	269	273	183
Durable Goods	June	355	361	383	220
Non-Durable Goods	June	208	205	196	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	June	26.6	27.0	27.6	26.7
Manufacturers'	June	16.2	16.2	17.2	15.2
Wholesalers'	June	3.8	3.9	4.1	4.6
Retailers'	June	6.6	6.9	6.3	7.2
Dept. Store Stocks (rb)—I	June	160	165	157	139

PRESENT POSITION AND OUTLOOK

(Continued from page 669)

exceed 30% from the war-time peak of 175.5 touched this year in the week ended May 5. A drop of this proportion would bring our index down temporarily to around 123% of the 1935-9 average.

* * *

Adding our own small voice to the babel of soothsayers, we crawl farther out on the limb to predict that the ensuing rebound will lift the nation into an era of unprecedented material prosperity; with **Employment** reaching 54 million; **National Gross Product,** $150 billion; **National Income,** $125 billion; and **Business Activity,** 142% of the 1935-9 average. Figures for National Gross Product and the National Income presume no change in the present general price level; but with this reservation, you may paste the forecast in your scrap book and write us about it sometime during the summer of 1947.

* * *

Social reformers who have arbitrarily set a goal of 60 million for "full employment"—a goal that is neither obtainable nor desirable—will scoff at such a nigardly conception of "unprecedented" prosperity. A National Gross Product of $150 billion and a National Income of $125 billion seem like pretty small potatoes compared with last year's $200 billion and $160 billion, respectively, until it is noted that only $112 billion of last year's National Gross Product was available for civilian purposes. The remainder was devoured by war. War expenditures in the coming era of prosperity will be considerably heavier than in previous peace-time boom years. Nevertheless, should our estimated figures prove reasonably correct, appreciably more goods and services will be available for civilians on a per capita basis than in the previous Utopian peak year, 1929.

* * *

A seeming inconsistency in the foregoing estimates calls for a word of explanation. Last year, a National Gross Product valued at $200 billion was turned out with employment averaging 52 million. Why should 54 million produce only $150 billion of goods and services? The answer is that working hours will be shorter and **Productive Efficiency** lower. As near as we can figure, output per man-hour increased at least 20% between the year 1940 and 1944—partly under the stimulus of patriotism and partly through acquirement of better "know how" in the manufacture of munitions.

* * *

There seems to be a "law of nature" under social conditions prevailing in the United States whereby work hours and labor efficiency automatically adjust themselves to absorb a **Labor Force** of about 40% of the population in years of prosperity. Our estimate of 54 million employed is thus based upon a population of 140

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Aug. 25	152.9	155.6	160.0	141.8
(M. W. S.)—I—np	Aug. 25	164.7	167.7	170.7	146.5
INDUSTRIAL PROD. (rb)—I—np	July	212	220	230	174
Mining	July	144	144	139	133
Durable Goods, Mfr.	July	291	308	347	215
Non-Durable Goods, Mfr.	July	169	173	165	141
CARLOADINGS—t—Total	Aug. 25	853	653	905	833
Manufactures & Miscellaneous	Aug. 25	354	282	404	379
Mdse. L. C. L.	Aug. 25	106	91	110	156
Grain	Aug. 25	67	54	49	43
ELEC. POWER Output (K.w.H.) m	Aug. 25	4,116	3,939	4,418	3,269
SOFT COAL, Prod. (st) m	Aug. 25	12.0	6.3	12.1	10.8
Cumulative from Jan. 1	Aug. 25	381	369	413	446
Stocks, End Mo.	July	49.9	47.7	61.4	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Aug. 25	4.9	4.9	4.7	4.1
Gasoline Stocks	Aug. 25	84.7	86.0	79.2	87.8
Fuel Oil Stocks	Aug. 25	46.2	44.8	59.4	94.1
Heating Oil Stocks	Aug. 25	39.8	38.7	40.5	54.8
LUMBER, Prod. (bd. ft.) m	Aug. 25	420	325	646	632
Stocks, End. Mo. (bd. ft.) b	July	3.1	3.1	3.1	12.6
STEEL INGOT PROD. (st.) m	July	7.00	6.84	7.50	6.96
Cumulative from Jan. 1	July	50.2	43.2	52.6	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Aug. 30	35.3	23.0	60.3	93.5
Cumulative from Jan. 1	Aug. 30	1,261	1,226	1,262	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Aug. 25	132	82	129	165
Waste Paper Stks., End Mo. (st)t	July	199	191	157	167
Wood Pulp Stks., End Mo. (st)t	June	81.5	86.2	87.5	98.5
U. S. Newsprint Consumption (st)t	July	254	272	241	373
Do., Stocks, End Mo.	July	471	443	491	523
Cigarettes, Domestic Sales—b	July	21.8	24.3	20.2	17.1

PRESENT POSITION AND OUTLOOK

(Continued from page 670)

million after allowing for an **Unemployment** "float" of 2 million (it was 3 million in 1929).

* * *

If we are approximately correct in believing that the volume of civilian goods and services produced during the coming era of prosperity should top last year by at least 25%, then the value of the nation's total **Retail Sales** (at current prices) should rise proportionately—say, to around $85 billion a year. In the post-Victory week ended Aug. 25, **Department Store Sales** were 6% ahead of the like period last year, compared with increases of 7% for four weeks and 12% for the year to date.

* * *

Commerce Department estimates that, while corporate gross income will shrink sharply over the next 12 months, **Net After Taxes** may not decline more than 20% from the present annual rate of $10 billion; though individual companies may be hit much harder. High wartime tax rates, carryback of losses, and refunds will serve as a cushion.

* * *

Latest opinion in Washington is that there is little hope of material **Tax Reductions** until Congress has some idea of how far national income will drop in the next 6 to 12 months and what to expect in next year's Federal budet.

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

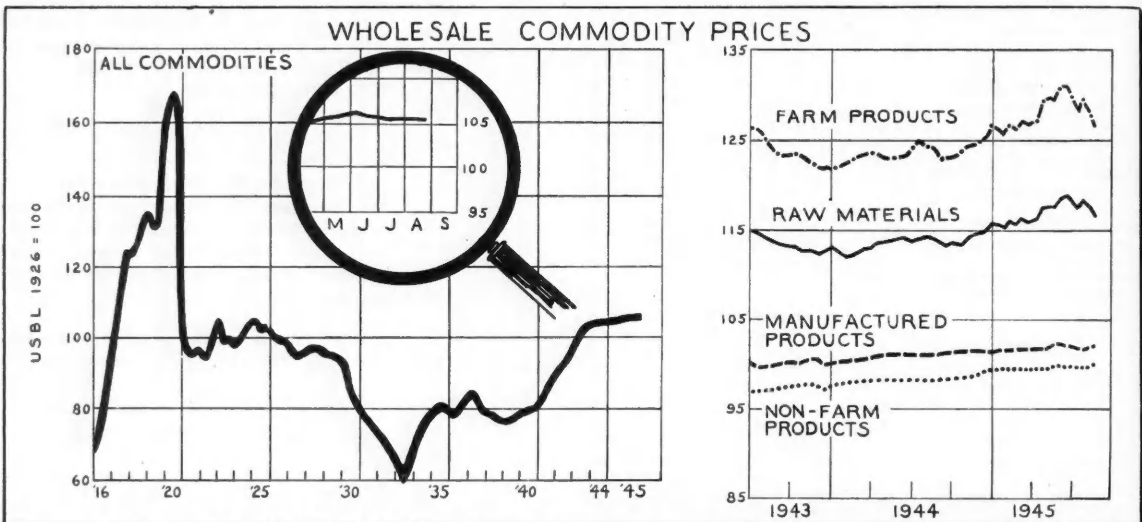
No. of Issues (1925 Close—100)	1945 Indexes High	Low	Aug. 25	Sept. 1
290 COMBINED AVERAGE	133.8	105.0	129.4	133.8Q
4 Agricultural Implements	197.4	160.5	188.4	191.2
10 Aircraft (1927 Cl.—100)	213.6	156.0	185.4	198.2
6 Air Lines (1934 Cl.—100)	877.5	559.6	802.8	824.8
5 Amusement	95.2	78.9	91.8	95.2P
13 Automobile Accessories	248.1	178.2	239.7	248.1Z
12 Automobiles	50.3	33.8	49.8	50.3Q
3 Baking (1926 Cl.—100)	16.6	14.3	15.5	16.2
3 Business Machines	269.1	221.3	256.6	269.1H
2 Bus Lines (1926 Cl.—100)	160.8	123.5	141.3	149.6
4 Chemicals	212.8	189.2	205.8	212.8H
4 Communication	83.6	73.5	82.9	83.6J
13 Construction	56.9	42.3	55.3	56.9H
7 Containers	334.7	276.5	324.6	335.7H
8 Copper and Brass	84.5	74.8	78.6	80.7
2 Dairy Products	57.8	47.6	57.3	57.8
5 Department Stores	57.2	39.8	54.9	57.2R
5 Drugs and Toilet Articles	163.5	117.6	150.1	163.5R
2 Finance Companies	297.0	222.1	284.9	297.0F
7 Food Brands	169.6	134.5	164.2	169.6Z
2 Food Stores	67.6	56.1	62.5	66.0
4 Furniture	99.0	81.6	94.9	99.0H
3 Gold Mining	1158.0	938.3	1043.4	1047.1

(Nov. 14, 1936, Cl.—100)	High	Low	Aug. 25	Sept. 1
100 HIGH PRICED STOCKS	88.22	73.59	85.37	88.22H
100 LOW PRICED STOCKS	156.78	112.22	151.97	156.78Y
6 Investment Trusts	54.8	44.7	51.5	53.4
3 Liquor (1927 Cl.—100)	562.5	391.0	530.3	535.7
8 Machinery	180.2	137.5	171.7	180.2H
2 Mail Order	129.2	96.7	125.8	129.2Q
3 Meat Packing	95.1	68.6	88.5	92.6
11 Metals, non-Ferrous	181.1	149.0	176.4	181.1F
3 Paper	25.2	18.9	24.9	25.2H
22 Petroleum	167.1	142.5	148.0	154.6
19 Public Utilities	94.0	55.4	89.9	91.6
5 Radio (1927 Cl.—100)	33.8	27.5	33.5	33.8J
7 Railroad Equipment	88.5	68.9	82.5	88.5H
21 Railroads	37.5	22.8	30.5	31.6
2 Shipbuilding	115.6	89.9	93.1	94.1
3 Soft Drinks	453.6	394.8	434.5	453.6Z
12 Steel and Iron	103.1	82.8	97.6	103.1F
3 Sugar	68.0	55.2	62.5	64.6
2 Sulphur	212.4	173.5	199.5	200.2
3 Textiles	102.4	58.5	90.8	94.7
3 Tires and Rubber	40.9	33.9	39.5	40.9R
5 Tobacco	84.2	67.5	80.2	84.2E
2 Variety Stores	287.4	255.6	270.5	279.7
21 Unclassified (1944 Cl.—100)	126.1	100.0	119.9	122.3

New HIGH since: E—1940; F—1939; H—1937; J—1936; P—1931; Y—New HIGH since Nov. 4, 1936. Z—New all-time HIGH. Q—1930; R—1929.

Trend of Commodities

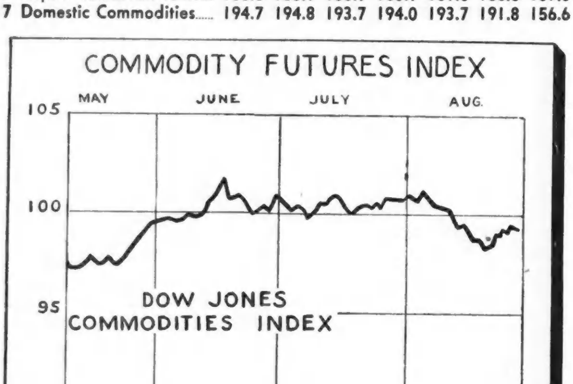
Commodity futures rallied during the past fortnight following a statement by Agriculture Secretary Anderson that the Government will continue to support prices; but spot markets were a trifle easier. The Department predicts that farm product prices will be maintained close to current levels well into 1946, with civilian demand continuing strong for many months. Several million service men in the Pacific area must be fed until they can be brought home, and there will be large relief shipments to China. Blue ration stamps are already abolished; and all foods, except sugar, may become ration free before the year-end. Whipping cream has come back to market, and butter ration points have been reduced substantially. Commodity exchanges will voluntarily continue to impose limitations on price fluctuations and volume of trading. Price floors must be maintained for at least two years, unless Congress amends or repeals the law; but ceilings will probably be dispensed with, a commodity at a time, as the danger of sharply rising prices recedes. It is predicted in the trade that sugar rationing will not be dropped until 1947 at the earliest. War, drought and labor trouble have reduced production this year the world over. The Agriculture Department has announced that it will subsidize domestic refiners of the 1945 beet and cane sugar crops to offset increased costs and stimulate production. A subsidy program to encourage lamb feeders and sheep raisers has also been inaugurated; but Secretary Anderson favors dropping the $400 million yearly beef subsidy next July 1, to "give us more meat this winter."



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

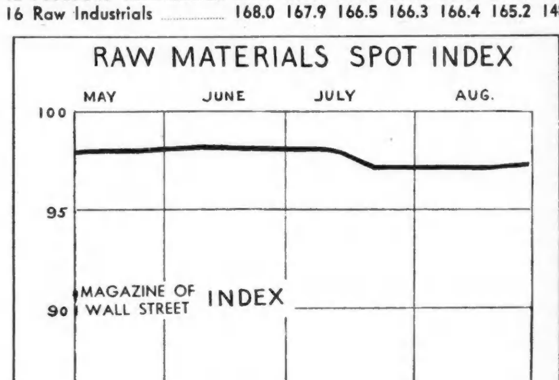
	Date Sept. 1	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	184.1	184.2	183.5	183.8	183.8	182.3	156.9
11 Import Commodities	168.6	168.9	168.9	168.9	169.0	168.6	157.5
17 Domestic Commodities	194.7	194.8	193.7	194.0	193.7	191.8	156.6

	Date Sept. 1	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	224.2	225.0	226.8	228.4	226.1	223.4	163.9
12 Foodstuffs	207.7	208.1	208.8	209.6	209.1	207.6	169.2
16 Raw Industrials	168.0	167.9	166.5	166.3	166.4	165.2	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	101.70	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.2	97.6	96.0	89.1	86.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

Challenge of Nationalized Industry and Finance

(*Continued from page* 643)

energetic," and that no "anti-social" or "repressive" tactics be used. This has still to be interpreted into specific policy.

Russia has already actively started her bi-lateral state trading with Poland, Czechoslovakia, Rumania, Bulgaria, Hungary, Yugo-Slavia; and will pay with blocked rubles, requiring their expenditure for Russian goods. Her state trading is of course largely barter—Russian iron ore, manganese, cotton, tobacco, flax, paper, etc. for example exchanged for Polish coal, coke, steel, iron, zinc, cement, soda, finished textiles.

Even the U. S. occupation forces in Germany are using bi-lateral barter, which is certainly a form of state trading; bartering Austrian pig iron for Czechoslovak coal; bartering Italian open-hearth steel furnaces for German salt, etc.

The U. S. is now compelled to face reality concerning a world in which state trading is to become the rule. American business appears to be ready to renounce the private cartel technique in large measure, but is uncertain of public cartels or state trading, while at the same time aware of the new rise of state trading which it and the United Nations face. If we remain a nation divided in any degree of hostility or lack of cooperation between private enterprise and government, it will put us at a monumental bargaining disadvantage in the huge world trade dealings of the near future; in particular since the chips are piled high now on Uncle Sam's table but may melt away seriously under the impact of state trading by countries firmly lined up behind their state negotiators, who turn their eyes covetously upon our pile of chips, and note our faltering hand.

We will need at once to strengthen our trading hand and mold business and government into an efficient, cooperating, mutually respecting entity. At the same time, through the United Nations organizations, we must negotiate world commodity and industrial arrangements and agreements in the spirit of the Atlantic Charter, and work out a less starkly selfish and over-aggressive handling of world trade. If there must be state trading, let it be in an educated spirit of live-and-let-live, for the trouble potential of over-aggressiveness is far too high—as the past has proved.

The fact of the matter is that truly free enterprise in postwar foreign trade will be a relative rarity. The accompanying map shows the potential European line-up in this respect. Elsewhere in the world, the outlook is hardly much better. The Americas alone stand out as an island of free enterprise but many American nations in the Southern Hemisphere will be none too enthusiastic adherents of that ideal. And should Britain actually decide "to go it alone" with her Sterling bloc, she will carry with her an important part of the world.

The role of Governments in foreign trade today is far greater than at any time. In a number of countries, international commerce is a Government monopoly as in Russia for instance. Elsewhere, Government "bulk" purchasing has taken on large proportions. With Government trading, barter deals for needed commodities are logical. Where barter is not flexible enough, clearing agreements may be worked out. There are many variations.

It is to obviate such foreign trading methods that the United States has sponsored the Bretton Woods agreements and other steps to encourage restoration of multi-lateral trade. But apparently we still have to convince the world, and especially Britain, that bi-lateral trading in the end works to the disadvantage of world commerce as a whole.

BOOK REVIEWS

BOOKS THAT WILL BE OF INTEREST TO YOU!

THE RUSSIAN STORY

By Nicholas Mikhailov

Sheridan House 191 pp. $2.75

Americans, since the war, have begun to sit up and really notice the Russians and for those of us who must rely upon secondary sources for our knowledge of that nation here is a book with which we can start our investigations. With bold strokes the author sketches the history of Russia over a thousand years. Despite the fact that this book contains less than 200 pages, the reader has no sense of superficiality nor is it necessary for him to make any concession to literary quality. It is a book of sound historical writing that takes a big subject and handles it in a masterful fashion.

THE PRICE OF PEACE

By Sir William Beveridge

Norton 160 pp. $2.00

Having previously tackled the problems of social security and full employment, this latest volume rounds out the author's wartime trilogy. Whether or not one agrees with Sir William's points, most certainly one will agree that he has a genuine gift of exposition. When the brave new world emerges, it is most certain to be founded on many of the premises which the reader will find succinctly set forth in this volume.

THE FUTURE OF JAPAN

By William C. Johnstone

Oxford University Press 161 pp. $2.00

Right now there are probably a lot of people who do not much care whether or not Japan has a future. The atrocity stories which continue to pile up will leave many of us pretty bitter for years to come. But if one questions the timing of Mr. Johnstone's book, one cannot doubt his authority, or his courage to tackle a problem which will undoubtedly plague our statesmen for many years. His book is practical and informative.

UNCLE SAM'S BILLION DOLLAR BABY

By Frederick L. Collins

G. P. Putnam's Sons 174 pp. $2.50

The Tennessee Valley Authority, familiarly known to millions of Americans as TVA, is the subject of Mr. Collins' searching investigation. Faced with the virtual certainty that Congress will seek to authorize other projects along the same lines as TVA, the reader is here afforded an opportunity to judge for himself whether or not the initial experiment in Government administration of electric power has been justified. The project has involved the outlay of huge amounts of taxpayers' money and after reading this book, Mr. Average Citizen should be able to decide for himself whether or not he got his money's worth. It is a competent and thought-provoking volume.

PHILOSOPHY OF BUSINESS

By Rupert C. Lodge

University of Chicago Press 432 pp. $5.00

Probably every businessman has a philosophy, although he may not think about it, at least not to the extent to which the author of this unusual book does. This is probably the first attempt to think out a philosophy of business and to superimpose the practical reflections of business men upon the economic speculations of philosophers. In his field, Professor Lodge is a recognized authority and knows how to present his views convincingly.

SOUTH AMERICA UNCENSORED

By Roland Hall Sharp

Longmans 363 pp. $3.50

Roland Hall Sharp is staff Correspondent on Latin-American affairs for the Christian Science Monitor and is recognized as one of the best informed persons on South American politics. In this book he has undertaken to unveil the progress of fascism in South America. His data were gathered over a period of eight years and some 110,000 miles of travelling in South America. To many of us who do not realize what is going on within our neighbors' borders this book will most certainly prove most revealing. It also contains thirty-two excellent photographs.

ASIA FOR THE ASIATICS?

By Robert S. Ward

University of Chicago Press 205 pp. $3.00

The author of this book, an American consul, was held captive for six months by the Japanese following the surrender of Hong Kong in 1941. He is fearful that ours will be a hollow victory unless we educate all of the peoples of Asia to the knowledge that the Japanese have selfishly deceived them. After reading the book one is bound to admit that his arguments appear well founded.

SECRETS OF INDUSTRY

By Lewis C. Ord

Emerson Books 255 pp. $3.00

Here are set forth the results of the author's researches into labor, industry and management as he attempts to appraise the techniques which promote industrial efficiency. Although Mr. Ord does not disclose any startling "secrets," his material has been organized in the careful manner of an efficiency expert and anyone whose daily pursuits are somewhat removed from the fields of Big Business and mass production will undoubtedly find it enlightening.

Can We Expect a Further Decline in Stock Yields?

(*Continued from page* 654)

yields continued to narrow. The investor has been willing to assume greater risk in exchange for better return and that is bound to continue, should yields further contract in the future. There will always be stocks returning considerably better than 3% and while presumably, under boom conditions, even speculative stock returns under the impact of competitive investment bidding will contract, there is a limit how far this process can go.

Thus we must bear in mind that when we speak of a 3% yield basis, we mean yield on investment type stocks exclusively. There never has been such a thing as a 3% yield ceiling for the entire market, and there never will be. Also it must be noted that the type of quality stocks now yielding 3% or less often has at least the same, if not greater investment merit than a good many preferred stocks, or a good many industrial bonds affording a comparable return.

Applying the theory discussed in the foregoing in the other direction, it would seem logical to assume that so long as purely money market considerations are the determining factor, the reaction potential of today's stockmarket would be small indeed. Presumably few dividends — if any—of the companies constituting the components of the Dow industrial average will be shaved during the transition regardless of temporary earnings setbacks. With prospective return unchanged and with investment demand pressing against current yield rates, why expect much of a market decline in terms of a lower Dow industrial average? If in the recent past, investors in high-grade common stocks have been content with a 3.77% yield, why should they sell now? There has been no impairment of future prospects; postwar boom potentials look just as rosy as ever and transitional difficulties are greatly minimized.

Yet it would be rash indeed to suggest that the stock market is without any reaction potential as we further proceed into the transitional era. The contrary is true. Here again, the importance of market psychology needs special emphasis and also the fact that the Dow industrial average and the market as a whole are hardly synonymous. Hence we frequently have changes in market sentiment difficult to explain, and above all numerous cross currents arising from selective market action.

It all goes to show that the market's future course cannot be predicted or projected on money market considerations alone. Numerous factors and intangibles enter the equation; in their entirety they produce that thing called market sentiment, than which there is nothing harder to predict or rationalize.

The moral of this discussion? It is that the market will continue to reflect the prospective trend of earnings and dividends, the degree of confidence in the future, the potential unsettlement ahead and the longer range prospects that lie beyond. In the last analysis, the market will reflect the mass opinion on all these things, and many more. Money market considerations, however important, are but one of them. Were they the only factor present, it would be simple indeed to chart the market's course.

As I See It!

(*Continued from page* 633)

issue of civil war in China. A settlement of the differences between the two factions would probably mean either that Moscow's apparent abandonment of the Chinese communists was accompanied by instructions that they collaborate with Chiang, or that Chungking agreed to arrive at terms acceptable to the communists in order to obtain the return of Manchuria and a Moscow promise not to interfere in China's internal affairs as embodied in the Sino-Soviet treaty.

An apparently significant point of the latter was that Russia has emphasized at a critical moment that she is following a policy of non-intervention in Chinese affairs. Whether such a policy will stand, remains to be seen. If the communists consent to disband their armies or turn them over to Chungking control, it will definitely signal Moscow's abandonment of its support of their efforts to obtain autonomy in a Federated China. If not, if the communists remain recalcitrant, the only conclusion must be that the Sino-Soviet treaty has far less significance than assumed.

Alive to the great importance of settling the Chinese question, our own diplomacy has gone to great lengths to bring Chungking and the communists together. On the outcome of this persistent effort and on the extent of Russia's cooperation will depend whether China at long last will obtain a liberalized coalition Government, permitting more rapid reconstruction of that war-ravaged country, quicker pacification and ultimate stabilization of the entire Far East. China in short is the key. Without peaceful adjustment of her problems, there can be no stability in Eastern Asia.

The Sino-Soviet pact has given Chiang Kai-shek by no means a free hand in Chinese affairs, for the possibility of Soviet intervention on the side of the communists has been one of the pressures exerted against him to induce his acceptance. It is clear that smooth and successful execution of the pact requires creation of a United China. In this respect, if recent Soviet utterances can be taken at their face value, Russian and American diplomacy is at last pulling in the same direction. This can be viewed as a distinct victory of American displomacy—backed by American power; but it is also indicative of cooperative action, undertaken at two different ends, and born of the necessity of compromise between the two powers in the interest of peace. It is a development that has greatly strengthened the prospects for international agreement on the Chinese situation. There is talk now that we may yet witness a

(*Please turn to page* 678)

As I See It!

(*Continued from page* 676)

complete fusion of the Chinese Communist factions with the Kuomintang, permitting eventually China's emergence as a modern national power.

As hinted before, there are other angles to the problem of stabilization and consolidation of the new situation in Eastern Asia. They have to do with Britain's attitude towards China, with the return of the properties of European colonial powers such as the Netherlands, France and Portugal. Their significance however fades when compared with the key question of China.

In the long run, once political stabilization is achieved, the development of the Far East along a pattern favored by the United States is primarily an economic question, requiring the building up of our influence through financial and industrial aid not only to China but to other countries such as India, the Philippines and others. It is a program essential to maintenance of political stability, as distinct from achievement of political stabilization, for in Asia no less than elsewhere in the world, conditions will never remain static. To prevent others from unduly extending their influence, and thereby upsetting a perhaps precarious balance, will require watchful and constructive policies.

Answers to Inquiries

(*Continued from page* 666)

Nash Kelvinator

Will you please tell me something of the postwar plans of Nash Kelvinator?
—L. T., Los Angeles, Calif.

With its major war contracts terminated, Nash-Kelvinator has stepped up its time table for the production of peace time products, according to George W. Mason, president.

The post-war program of the company calls for tripling the pre-war production of automobiles and doubling the pre-war household appliance and refrigerator volume, he said.

"Production of Nash cars will rise from a pre-war level of 89,000 to a post-war peak of 250,000," Mr. Mason declared. "Kelvinator and Leonard appliance manufacturing will increase from 500,000 to 1 million units annually."

The company plans to be in limited production of automobiles in 30 to 45 days, and on refrigerators at an earlier date, he said.

United Aircraft Corp.

I know that the sudden ending of the Japanese war has changed the outlook for aircraft manufacturers, and sales will drastically decline, from wartime peak, however, I would be interested in knowing what recent earning figures have shown.
—B. W., Winston Salem, N. C.

United Aircraft reported net income for the six months ended June 30 totaled $6,957,950, equal to $2.37 a share on the common stock, before giving effect to renegotiation. This compares with $8,450,113 or $2.93 a share after renegotiation for the corresponding period last year. For the full year of 1944 earnings amounted to $5.37 a share.

For the quarter ended June 30, net profit was $3,410,169 before renegotiation, equal to $1.16 a share on the common stock, compared with $4,389,485, or $1.35 a share a year ago.

Shipments for the first half of the current year totaled $331,900,931, compared with $419,925,815 in the corresponding period of lyast year. For the quarter ended June 30, shipments were $166,384,398, compared with $204,645,801 for the corresponding period of last year.

The company set aside $1,673,745 in the first six months for the reserve for transformation to postwar conditions, compared to $2,828,763 in the first half of 1944. Of the reserve of $34,149,154, as at June 30, $19,149,154 was provided by charge to operations, such charges for 1942 and subsequent years being equal to the estimated postwar excess profits tax refund and credit for debt retirement, and the remaining $15,000,000 was appropriated from earned surplus.

Buffalo Niagara & Eastern Power Corp.

Will you please inform me as to the latest reorganization plan of the Buffalo, Niagara & Eastern Power Corp? I know various plans have been pending for a long time and would like to know what the present status of this corporation is.
—G. B., Brookline, Mass.

The Securities Exchange Commission will probably hand down its findings and opinion before the end of the month on the amended plans for reorganization of Buffalo Niagara & Eastern Power Corp. Two amended plans were filed with the commission on July 16, one by Buffalo Niagara & Eastern and the other by its parent. Hearings have been concluded and the S.E.C. public utility staff is now preparing its findings and opinion. Both plans provide for retirement of the Buffalo Niagara & Eastern $1.60 Pfd. stock at $26.25 a share plus accumulated dividends. These accumulations totaled $5.10 a share at the end of August. The plans also call for payment of accrued dividends on the Buffalo Niagara & Eastern $5 first preferred stock and for replacement of the issue with new $5 preferred shares on a share for share basis. As part of the plans, Buffalo Niagara & Eastern is to consolidated with several of its subsidiaries into a new company to be known as Buffalo, Niagara Electric Corp. Funds for retirement of the $1.60 shares are to be provided by Niagara Hudson, which in turn will obtain the cash through a bank loan of $40 million and through sale of its common and preferred stock holdings respectively, in Central Hudson Gas & Electric Co. and in Central New York Power Corp.

Postwar Outlook for Continental Can

(*Continued from page* 660)

with $2.08 in the corresponding previous period. While there was a steadily declining trend in earnings during 1942 and the first three quarters of 1943 (based on the 12 months cumulative figures), the cumulative statements for each succeeding quarter have reflected a gain, so that the latest statement is nearly $1 better than that of September, 1943. This despite the heavy inroads of income and excess profits taxes, the total of which substantially exceeded net profits in the latest period.

Early Peace Prospects for Various Industries

(*Continued from page* 641)

margins are likely and prospective high volume should more than outweigh whatever deficiency may arise.

Marketwise, prospects point to better than average performance once postwar potentials become realties though a good deal has already been discounted. Among promising situations are Bower Roller Bearing, Eaton Mfg., Borg Warner, Briggs Mfg., Electric Auto-Lite, Motor Wheel, Libbey-Owens-Ford and Houdaille-Hershey. However, even normally marginal companies will probably have enough business during the "catching-up phase" to show good results.

BUILDING SUPPLIES: The much-vaunted postwar building boom will be slow in getting under way, largely due to shortage of lumber and manpower and the necessity to build up supplies in such items as plumbing and fabricated metal products. Until these essential materials are available in quantity, there cannot be any of the large-scale building program. Highway construction and projects not requiring lumber, however, will get an early start as soon as manpower can be mobilized.

Longer range prospects appear excellent though there is wide divergence as to the extent of prospective annual construction volume, with guesses ranging from $5 billion to as high as $16 billion a year. An average of about $10 billion, beginning with the second postwar year, appears a more realistic expectation, provided that boom prospects in the residential housing field are not jeopardized by unduly high building costs, meaning mainly labor costs. With building cost roughly 30% above prewar and heavy latent demand, activated by existing large individual savings, likely to force further advances, price controls of building materials will probably be kept until ample supplies become available. In the circumstances, and until construction activities assume real volume, near term profit prospects of building supply companies may lag behind general expectations, which undoubtedly are bright for each major line of the industry.

Building shares as a whole have maintained better than average market performance but are still selling below prewar highs. In relation to anticipated record sales and earnings, many appear undervalued, thus a good deal of further discounting may lie ahead as concrete prospects begin to unfold. Among the more attractive situations are Johns-Manville, U. S. Gypsum, Crane Co., Flintkote, Lehigh Portland Cement, Long Bell Lumber, National Lead and Pittsburgh Plate Glass.

CHEMICALS: With the advent of peace, the chemical industry faces a new era, one bright and promising for virtually every component company but immediately ahead is a period of readjustment which may prove rather more difficult than generally anticipated. There is no significant reconversion problem; rather problems center on questions of overcapacity and surplus stocks in certain fields of this most diversified of all industries. Sales of general chemicals, heavily expanded during wartime, will trend downwards to fit normal requirements and the drop in total production will depend importantly on how fast industrial reconversion proceeds. Eventually, further long term growth is assured but not for some time will peace volume equal or exceed the intense wartime activity. Over the nearer term, however, declining profits appear inevitable, limiting more immediate market potentials, though it would seem that the industry has more to gain from tax relief than to lose from temporarily reduced volume.

Marketwise, chemical stocks are likely to continue their average performance over the nearer term. Their main attraction lies in long-term growth potentials, with Allied Chemical, Dow Chemical, du Pont, Monsanto Chemical and Union Carbide among the more promising situations. However, yield ratios are traditionally low, reflecting the investment calibre of the most seasoned chemical equities.

MACHINERY: The outlook here is quite encouraging. Business in machine tools has been markedly reviving since early this year with first quarter shipments amounting to $113 million. At present, unfilled orders are sufficient to guarantee at least seven months production at current rates. Hopes for good postwar activity rest heavily on deferred needs of civilian goods industries and on export prospects; on both counts, expectations point to peak peacetime sales for a period of several years with makers of construction machinery, oil field equipment and diesel engines particularly favorably situated.

In most cases, reconversion will be simple and finances generally have been notably strengthened during the war period. Existence of a large pool of surplus machine tools poses a major but not insoluble problem; according to all indications, disposal will be handled in such a manner as to have a minimum of adverse effect on immediate production prospects. Thus for some two years or so, both sales and profits of most machinery and machine tool makers should exceed peacetime tops, given tax relief. Whether long-range domestic potentials are materially better than prewar remains to be seen. It will depend primarily on the trend and scope of capital goods investment in the future.

The excellent medium term prospects have been reflected marketwise, lifting substantially prices of most machinery stocks. Still the majority continues to provide better than average yield and some have marked appreciation potentials. But all are highly speculative and extremely sensitive to cyclical changes. Babcock & Wilcox, Caterpillar Tractor, Fairbanks Morse, Link Belt, National Acme, National Supply and Dresser Industries have appeal from the viewpoint of appreciation potentials; Ingersoll Rand affords liberal income.

METALS: Metal shares have been lagging behind the market, reflecting a number of obscure factors present in the postwar outlook. These are tariff policies, surplus stocks, cost elements and competitive factors. None of them at this writing are clear. However, all indications point to a substantial postwar demand for the principal non-ferrous metals and the better situated companies may be expected to report satisfactory profits, especially if hopes for an extended postwar boom materialize. This means chiefly low-cost producers and concerns with entrenched positions. While the appreciation potential appears definitely limited, some of these companies may well have merit on a yield basis, such as International Nickel, New Jersey Zinc, Anaconda, Kennecott,

Phelps Dodge and St. Joseph Lead.

OFFICE EQUIPMENT: Makers of office equipment have neither a reconversion nor a resumption problem; reconversion already has been largely attained and the industry is faced with the prospect of a world-wide accumulated demand which may take more than four years to satisfy. The way is clear for full competitive production and orders for typewriters, for instance, are being accepted on a three to four months delivery basis. The surplus problem is regarded as manageable and not likely to affect new market prospects unduly. Export potentials are excellent.

While over-all sales this year will drop, due to only gradual resumption of regular business, wider profit margins on regular output and large tax offsets should moderate the recession in final earnings, and dividends are generally held secure. Office equipment shares as a group have lately done better than the market, still they are well below prewar highs. Attractive equities include International Business Machine as a conservative growth situation. National Cash Register, Remington Rand, Underwood, while more cyclical, have appreciation appeal over the medium and longer term.

OILS: With the war's end, the petroleum industry faces the inevitable severe contraction in demand and profits in the early postwar period will shrink accordingly though given tax relief, they should by no means be disappointing. It is estimated that a readjustment period of roughly twelve months is in prospect, with sales well below inflated wartime levels but still close to those of 1941, the best peacetime volume year. The extent and duration of this period depends in part on how quickly new automobiles and tires will become available to permit full resumption of civilian motoring, how quickly normal civilian consumption can balance the sharp drop in military usage. Eventually, however, continuation of the secular growth trend is confidently expected, with consumption outdistancing the wartime peak possibly within five years.

Current prices for oil shares make full allowance for the expected temporary earnings decline; the majority are not high in relation to recent earnings and favorable longer term prospects. Still, appreciation potentials appear definitely limited at this juncture, at least for the nearer term, just as oils generally seldom perform marketwise as well as the general market. However, those with sizable crude oil reserves and a good balance between production and refining capacity have longer term investment merit. In this category, among others, fall Amerada, Continental Oil, Gulf Oil, Texas Co., Standard Oil of California, Standard Oil of New Jersey.

STEELS: The steel industry faces an initial let-down following cancellation of war orders but a subsequent upsurge in volume is a foregone conclusion. The interval between the two depends on how quickly the automotive, household equipment industry and other large consumers of steel will actually get rolling in volume. Until then, there will be comparatively little business for steel mills because the products used by these industries cannot be stored satisfactorily for any length of time. With reconversion forging ahead at a fast clip, indications are that the recessionary interval will be relatively shorter than earlier assumed and that in 1946, the steel business will expand steadily from its reconversion low as domestic and foreign buying get under way. Also there is confidence that the squeeze in profit margins to which the industry has been subjected for the past four years will soon be corrected—at least partially—by price adjustments, a requisite for really worthwhile earnings expansion.

All in all, the transitional dip should affect near-term earnings not too severely, due to tax cushions, and for a relatively short time. Subsequently, the huge requirements of the principal steel consuming industries should result in a large and sustained demand for steel which should find expression in fairly sizable earnings. On that basis, price appreciation of steel shares—still lagging considerably behind the general market—is a good possibility over the longer range. Selected stocks with above average attraction are Inland Steel, National Steel, U. S. Steel, Alleghany-Ludlum, American Rolling Mills, Acme Steel and Wheeling Steel, the latter particularly because of the pronounced leverage factor.

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Companies to Benefit from Tax Windfalls

(*Continued from page* 652)

concerns, their relative EPT payments and finally an estimate of net earnings had EPT been reduced to a maximum of 60%, as some quarters now predict is likely to be the new mark. If all factors years, the projection would be remained constant in coming more trustworthy, but of course that is an impossible supposition. The outstanding certainty is that any relief from the tax will correspondingly offset a rise in wage costs, overhead and sales expenses, and chances are that operating efficiency will produce a net broadening of profit margins compared with prewar.

Comprehensively viewed, the outlook for relatively easy transition is greatly enhanced by the near-term flood of $5.5 billion cash which will accrue to industry under interim tax relief, tending to reduce debts and to support postwar expansion. Production from prewar plants, plus $6.8 billion worth of additional facilities soon to be fully written off, and from new capacity planned, afford glowing potentials for volume. In numerous instances, reserves for contingencies and heavy depreciation no longer will slice into earnings, correspondingly permitting more generous dividend distributions. All in all, the prospects for the longer range view are indeed bright, and for much of it, constructive tax provisions must be given their share of credit.

Projecting the Course of Reconversion

(*Continued from page* 638)

The Government is asking Labor for a reconversion no-strike promise; organized labor is loath to accede unless the full employment measure is more actively pushed by the Administration. Besides there is strong disagreement on many other labor questions.

In all this there is a strong note of urgency. The war has ended, reconversion has begun and mounting unemployment has become a stark reality. Congress is aware that the country expects it to act promptly on the emergency program outlined above, designed not only to facilitate reconversion but to forestall dangerous trends towards both, inflation and deflation. For Congress and the Administration, it means a severe test, and a showdown. For the country at large and our economy, wise action—or the lack of it—obviously is a matter of the most far-reaching importance.

Ten Potential Peace-Time Leaders

(*Continued from page* 649)

ably to the speculative investor.

Rheem Manufacturing

During the war Rheem Manufacturing Co., was prominent in the manufacture of munitions but is now prepared to effect a rapid conversion of its facilities to more peaceful activities. The company manufactures a diversified line of sheet steel products including drums, containers, pails, etc., together with an extensive list of household products. Rheem is rated the largest manufacturer of water heaters for gas, electricity and oil, and other items include automatic stokers, boilers, tanks, and furnaces. Based upon surveys conducted by the management, the company expects to do an annual business of $40,000,000 in the first full year of peace. If this estimate is realized, it will be four times the volume of sales in 1940.

Considering the persistent but orderly growth which has marked the company's history, its strong corporate connections and the potential demand for its products, the management's estimate seems conservative. With the retirement of 43,496 shares of 5% convertible preferred stock last August, capitalization consists solely of 796,975 shares of common stock. On the basis of the latter figure, profits in the first six months this year were $1.40 a share. Dividends have been paid at the rate of $1 a share annually for the past six years. Despite the probability that peace will mean the virtual halving of the company's sales, an enlarged domestic volume should permit maintenance of the current rate without difficulty and given tax relief, really satisfactory earnings are in prospect. Combining a reasonable return with a comparatively low price-earnings ratio, the shares, because of existing growth potentials, have above average speculative appeal.

Memo: To Ourselves

Never before in the world's history has a war been decided so far behind the line of battle.

Notwithstanding the smashing blows struck by the Army and the Navy as they fought their way up from Pearl Harbor to a climax in the Pacific, it is a fact that Japan has not been demolished by military might, as Germany was. Fortunately for the lives and future happiness of millions of Americans, she surrendered to *force in being,* and not to force expended, to the superior scientific and productive power of the United States and her allies.

It is fair to say that military and naval power drove this enemy to defeat down a road built by research, by productive efficiency, by the hard work of countless men and women who never heard a shot fired. To all of these Americans we are most grateful.

In the national sorrow for those who gave their lives, in the jubilation of victory, the significance of this truly unique achievement must not escape us, because it is the one advance in human thinking to emerge from the holocaust. If we have learned the lesson of this tremendous power of ours, and will begin to apply it immediately, we may never again have to go to war.

Scientific progress and productive efficiency are the most wonderful weapons of all time because they do not have to be laid aside when the fighting ends. *They must not be laid aside.* Industry and labor, with the full cooperation of our government, must begin at once to apply them to the problems of peace and reconstruction. I believe we are ready to do that today.

For whatever influence it may have in the shaping of our world economy, the General Electric Company has been preparing to pursue this course for a long time. We are ready with plans that will multiply our services to consumers without increasing the price of those services. We hope to lower them in time.

We have planned to cut manufacturing costs with new methods in order that we may maintain the fullest possible employment and provide our workers with the means of obtaining the highest possible income measured by their cooperative efforts.

We are prepared to invest more than ever before in our history in research so that it will insure for tomorrow more jobs, better working conditions, and more goods for more people at less cost. We believe America has a right to expect these benefits of capitalist enterprise from business.

President
GENERAL ELECTRIC COMPANY

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